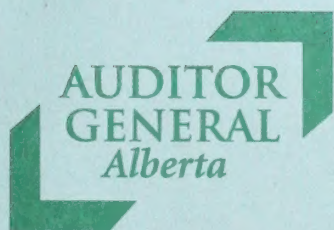


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Annual Report of the Auditor General of Alberta

1995 - 96



Mr. R. Hierath, MLA
Chairman
Standing Committee on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1996, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

This is my second annual report to the Legislative Assembly and the eighteenth such report issued by the Auditor General of Alberta.

A handwritten signature in dark ink that reads 'Peter Valentine'.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 16, 1996



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Report For The Year Ended March 31, 1996

Purpose of Auditor General annual reports

The purpose of the Annual Report of the Auditor General is to report the work of the Office. The Office is funded to identify cases in which systems and business practices can be improved. Our annual reports are designed to meet the expectation that we assist government and public agencies in improving their performance. Annual reports also serve to assist legislators in their work to hold the executive accountable for the management of public resources.

Scope of work

The scope and extent of audit work completed for 1995-96 and recommended improvements for the specific financial and management control systems examined by my Office are described in section 2 of this report.

For every financial statement audited, the Auditor General has issued an Auditor's Report. Section 3 contains information on those auditor's reports that contained reservations or reported a lack of compliance with legislation.

I am satisfied that those transactions and activities examined in financial statement audits performed by my Office complied, in all significant respects, with relevant legislative authorities, apart from the instances of non-compliance described in this report. I must caution, however, that it would be inappropriate to draw a legislative compliance conclusion about matters not examined by my Office.

Recommendations

Recommendations are provided for the benefit of Public Accounts Committee members, ministers, other MLAs, the public, and management. When determining significance, I consider the nature and materiality of the matter relative to the individual entity and to the government as a whole.

This report contains 69 recommendations. Of these, the 35 recommendations that I consider particularly important and therefore warrant a formal government response are numbered. Of the 35 numbered recommendations, 10 are repeat recommendations.

In my opinion, the most critical recommendations are numbered 1, 2, 3, 4, 13, 14, 15, 16, 17, 32, and 35.

Improving The Financial Administration Of The Province

The purpose of this introductory section of the report is twofold: to provide a summary of the most significant recommendations for improving the financial administration of the Province; and to provide a broader view of a theme in the report—setting performance expectations.

Government accountability

Overall, progress in improving government accountability is satisfactory and proceeding according to plan

As I believe that progress relating to the implementation of the government accountability framework is satisfactory, I have not repeated recommendations of prior years or provided additional ones this year. My Office is committed to assist in the implementation of the recommendations already made. The rapid and fundamental change is making a difference. I see evidence of the new accountability in meetings, plans, reports and even newspaper articles. There is an increasing awareness that the government must demonstrate when it spends money that it does so with an understanding of the desired result and that the government should provide objective information on what was actually achieved. As people gain a better understanding of the information provided, there will be pressure for even more useful information. As planning decisions improve, so will performance.

Health sector

There is a major need for improved health information, and systems to deliver that information

The most critical recommendations that I have made this year include four directed at the Department of Health (Recommendation Nos. 14, 15, 16 and 17). Their thrust is that significant risks in the health system can be minimized through effective governance and the use of suitable information. I am concerned that the Department of Health has not made sufficient progress in resolving issues previously identified.

Information systems in the health sector do not integrate clinical and financial data in ways that can help to improve setting expectations, delivering service and evaluating performance

Perhaps the most significant shortage of useful governance information today is in the health sector. Much of the information produced is not directly linked to formalized accountability reporting processes. To be useful and fully relevant, systems need to provide information in a way that integrates clinical and financial data with processes necessary for planning and expectation setting, delivery of health services and the evaluation of results. We have seen

that information systems are often not designed in a manner that would permit effective two-way communication about results expected and the measurement of results achieved. For example, budget processes often consist of a top-down allocation of funds rather than a process of establishing the best practices and related costs through consultation with the various stakeholders, including those who work at the front line.

Lottery grants

Benefits resulting from use of lottery fund grants are not known

The Minister Responsible for Lotteries has recognized an overlap with other ministries providing services in areas receiving lottery fund grants. Consequently, Lottery Fund managers place reliance on other ministries for accountability from grant beneficiaries. This division of responsibility may be contributing to the fact that the Province is not determining whether it is achieving the expected benefits from the use of lottery fund grants. Through Recommendation No. 1, I have asked the Executive Council to consider having beneficiaries report results in terms of expectations in their business plans. Also, I am advocating that obtaining accountability from grant beneficiaries be solely the responsibility of the appropriate Ministry.

Year 2000

The government is exposed to the risk of systems failure on January 1, 2000

Some information systems may fail on January 1, 2000, because they do not provide for dates with years greater than 1999. I have completed a review of steps taken and concluded that there is a risk that government information technology will not be Year 2000 Compliant. Recommendation No. 2 seeks to encourage the appropriate action now by having the Office of the Chief Information Officer evaluate Ministerial plans and monitor progress towards ensuring that information technology is Year 2000 Compliant.

PeopleSoft Project

The PeopleSoft Project faces many challenges and the Project structure could be improved

The PeopleSoft Project is a computer development project whose end products will replace the Province's existing central accounting and reporting systems, and provide human resource systems. In general, I am concerned that there are now three sub-projects, each with a steering committee and an external consultant manager, addressing a single integrated software program. For the Project to succeed against the current schedule at the anticipated cost, all areas affected by the Project must be closely coordinated and integrated. In Recommendation No. 3, I have suggested that the Deputy Ministers' Steering Committee restructure the Project.

Tuition fees

There is inconsistent understanding across the post-secondary education sector on how to apply the tuition fee policy

The Department of Advanced Education and Career Development's tuition fee policy is designed to balance students' and Provincial needs. The intention is to require students to make a reasonable contribution towards the cost of their education. Unfortunately, the policy is not being applied consistently across the sector, in part because some key terms have not been adequately defined. As the success of the tuition fee policy depends on its application, I have suggested that the Department work with the post-secondary education sector to facilitate a consistent, reliable and well-understood application (Recommendation No. 4).

Metis settlements

Longer-term business plans would enable the government and Metis settlement members to assess the planned progress of settlements towards financial self-sufficiency

After March 1997, the eight Metis settlements will receive reduced funding. However, most Metis settlement councils currently appear to focus mainly on the annual budget cycle, paying less attention to longer-term considerations. Settlement councils could use longer-term plans to explain to settlement members how they intend to use future funding to administer settlement affairs, to build a healthy community and to stimulate the settlement's economy. Such plans could also show how, and to what extent, settlement councils expect to match costs and revenues when the main funding diminishes after 1997. In Recommendation No. 13, I have recommended to the Metis Settlements Transition Commissioner that he encourage the development of longer-term operating strategies and financial forecasts.

Assumptions in plans

Disclosure of underlying assumptions and their impact will assist in critical review of three-year business plans

I have repeated a recommendation made last year, after my examination of the Swan Hills Special Waste Treatment Facility, that the Treasury Department require appropriate disclosure of the major assumptions and in particular the downside risk to ministry plans, when proposed major programs or capital expenditures are dependent on future events (Recommendation No. 32). Without specific and clear instructions, there is a danger, particularly in future years, that such information may not be included in the business plans, and may not be identified and considered during the reviews by the Standing Policy Committees and the Treasury Board.

Alberta Treasury Branches

Losses on large commercial loans are impairing Alberta Treasury Branches' profits

Following my examination of the systems used by Alberta Treasury Branches to approve and monitor large commercial loans, I recommended that Alberta Treasury Branches adopt a more business-like and profit-oriented approach (Recommendation No. 35). Most of Alberta Treasury Branches' loans are generally well administered and profitable. In recent years, however, loan losses and foregone interest income have caused the portfolio of large commercial loans to perform below similar portfolios of other lending institutions. Alberta Treasury Branches' business philosophy has sometimes involved providing additional credit over a number of years in an attempt to

sustain businesses that were experiencing operating difficulties. In situations like these, Alberta Treasury Branches runs the risk of assuming disproportionate amounts of the borrower's business risks, without adequate prospects of commensurate compensation.

Rewarding performance

Compensation programs should be the responsibility of management

I have commented once again (page 21) on rewarding performance. My conclusion is that Productivity Plus, a first step in implementing a tentative system to reward exceptional performance, was arbitrary. Also, the rewards were too far removed from the time the contribution should have been recognized. In my view, overall budgetary control coupled with performance reporting is a framework within which management can and should be given flexibility to reward performance.

Setting performance expectations

The Auditor General's message to board members is that effective governance leads to the improved performance of their organizations

Almost all government business activity that is not managed by departments is under the direction of boards, commissions and authorities. These boards and authorities are accountable for the performance of their organizations to a Minister.

During the year, I have taken every opportunity to talk to board members on the subject of sound governance and accountability. In July 1996, I was particularly pleased to be able to speak to the new and continuing members of the Regional Health Authorities and the Provincial Health Boards. These men and women play a critical role in the health sector's governance and I repeated my conviction that effective governance is essential to successful performance. I stressed that board members should explicitly assume responsibility for their organizations to identify the principal risks that the organizations face, and to ensure that appropriate systems to manage those risks are implemented.

Board members should ensure that performance expectations are set and understood

When asked how an individual board member can make a significant contribution, I reply—concentrate with a passion on setting performance expectations. All too often, people devote disproportionate effort to the mechanics of reporting on performance and neglect the key prerequisite—establishing the target. Without clearly articulated, measurable and understood performance expectations, there is unlikely to be sustainable improvement in programs and services. As the government says in *Measuring Up* (June 1996), the purpose of reporting on performance is improving results.

Setting performance expectations is the basis for measuring performance

Our approach to assisting clients stresses a continuum which starts with setting measured expectations in a budget and progresses to reporting on results. In this model, reporting is not an add on. Useful reporting on performance only comes from a foundation of sound management systems and information. Further, to stress the interrelationship, we point out that setting expectations is the basis for measuring performance. In other words, setting expectations in budgets is where performance reporting starts.

For example, I have recommended to a technical institute on page 54 that it include the setting of expectations as part of its planning for continuing education activities. Such expectations would provide direction and be the basis for measuring results. A further example can be found on page 151. I have recommended the improvement of expectation setting in the plans of the bodies who deliver social housing. The Ministry's goals should be the basis for those expectations.

Setting performance expectations requires collaboration, and results in a performance contract

Setting performance expectations is the process of obtaining agreement between the parties to a performance contract. Setting expectations is essential to clarifying the roles of everyone involved. Setting performance expectations is the means of sorting out and harmonizing the different expectations of the various stakeholders. For example, consider the use of buildings. Setting performance expectations requires the collaboration of the custodian, who knows best how to maintain property, and management, whose job it is to assemble the information to decide what property should be maintained.

Performance expectations exist only when every person understands what is expected of them and how their performance will be measured

Expectations have not been properly set if the parties to improving performance do not know how to measure their performance. If you know how your performance will be measured, you have a contract that can guide your contribution to improving performance. Everyone, and I mean every person, whether it is the board member, the custodian or an external contractor, needs to know what is expected of them and how their performance will be measured and rewarded.

An example of the risks of not defining specific measurable expectations can be found at page 44. I have pointed out that the lack of measurable expectations may impede the success of those who deliver student loan programs.

To meet goals, there must be communication of performance information at all levels of activity and in each of the planning, executing and evaluating phases

Communication relating to performance should occur at various stages of the accountability cycle and at various levels of an organization. An effective reporting process should be aligned with the accountability cycle, with information usefully disaggregated at the various organizational levels. This would permit two-way communication which is necessary to encourage all levels to cooperate to meet organizational goals.

An example that illustrates the need for two-way communication can be found on page 52 in this year's report. I have recommended that a college improve the communication of planning and reporting information between the academic divisions and the Board of Governors and senior management.

Our recommendations are designed to improve the information needed to set performance expectations

I must be clear, however, that my advice to the board member to concentrate with a passion on setting performance expectations presupposes the existence of appropriate information and the systems to deliver that information. It is for this reason that I believe the many recommendations in this report designed to assist management in improving systems are so important.

Focusing on setting performance expectations is a practical way of improving performance

In summary, I believe there is a need for greater focus on setting performance expectations. The discipline of setting expectations identifies needed information, which in turn clarifies management information systems development, and thereby the means to improving performance.

General comments

Better information on results and a current focus would assist the Public Accounts Committee to do its job

Our audit work is valuable to our clients only because we are independent

In the last year, I learned more about the workings of the Public Accounts Committee, which is charged by the Assembly with examining the government's management and control of public resources. I do believe that the usefulness of the process is dependent on the incisiveness of the questioning of Ministers and their officials. In this regard, there is a direct correlation between the questioning and the quality of the information on results achieved. Furthermore, as a Minister appearing recently before the Committee remarked, something needs to be done to make the Committee's review more current. In the particular case, the Minister was being questioned about 1994-95 in August 1996.

Our primary responsibility is to the Members of the Legislative Assembly, and we work hard to ensure that our clients understand why this is so. The authority and value of the legislative audit are derived entirely from the fact that the auditor in expressing an opinion does so independently. In the public sector, there is a long history of the public, represented by legislators, appointing the auditor. In this way, the auditor is independent of the government of the day, government-appointed boards, and management. Some directors and managers of public resources in Alberta argue that they should appoint their auditor. Auditor appointment in these circumstances suffers, in my opinion, from a lack of independence in that the auditor is accountable to the Board that appointed him or her rather than to the "shareholder". In my view, allowing boards to appoint an auditor would not be in the best interests of the public unless the auditor is appointed as agent of the Auditor General. Even with the active involvement of management, when the Auditor General appoints an agent, he retains primary responsibility to the public for the audit. In fact, my Office has used private sector auditors cost-effectively for many years.

I am optimistic about the contribution we will make to decision making in the public sector by ensuring that Members of the Legislative Assembly have accurate and reliable information from independent audits.

Acknowledgments

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

In the past year, my Office has made a number of meaningful contributions to the well-being of our clients. Examples of these activities are set out elsewhere in this report. Providing high quality client service gives all of us in the Office a substantial measure of satisfaction. Without the cooperation of client staff at all levels, our contribution to improved business practices at all levels of government organizations would be far less successful.

I continue to meet regularly with legislators, senior management members, and board members of client organizations. The hospitality accorded to me and members of my staff demonstrates that our Office is making a difference. I continue to encourage frank discussions between the members of our client organizations and my staff.

The Office continues to be served by dedicated professional staff. To them goes the credit of the high quality of this report. Once again, I acknowledge publicly their professionalism and hard work. To all who have contributed, I say thanks.



FCA
Auditor General

Edmonton, Alberta
September 9, 1996

Guidance to reader

Executive Council, or Cabinet, chaired by the Premier, is the committee of Ministers that is in charge of the government. A number of my comments have government-wide significance, therefore, I have included them in this section. I deal with accountability, rewarding performance, the Code of Conduct and Ethics, the risks to government information systems arising from the “Year 2000” phenomenon, and the government’s new accounting system project.

The Ministry of Executive Council is organized into five components as follows:

- Office of the Premier/General Administration
- Northern Alberta Development Council
- Personnel Administration Office
- Public Affairs Bureau
- Office of the Chief Information Officer

The Ministry’s expenditures for 1995-96 amounted to \$23 million.

In the first part of this section of the report, I provide an update on implementing the Province’s accountability framework. Progress has been made, but much work remains. In my view, my Office must focus on assisting with the implementation of past recommendations before setting out new challenges. In other words, we should finish what has been started.

Based on an examination of accountability for lottery fund expenditures, I have concluded that improved accountability is possible. My recommendation to the Executive Council is on page 19.

I have again considered the question of rewarding performance. Since last year’s report, the government has implemented “Productively Plus”, a program to reward exceptional employee performance. My comments on this Program appear on page 21.

A Ministry's annual report will become its primary accountability report starting March 31, 1997. I discuss the content of effective annual reports, and propose the establishment of an award of excellence for public sector annual reports.

The government is in the process of revising The Code of Conduct and Ethics that applies to its employees. I have included comments on the project in this section.

The Year 2000 presents the government with a significant information challenge. There is a risk that information technology critical to the operation of the Government of Alberta will fail on January 1, 2000. I discuss the risk and how it can be managed. Essentially, if the appropriate action is taken now, the government will have an excellent chance of successfully dealing with the problem.

A project is underway to implement a government-wide financial and human resource system. I have set out a number of issues related to the project that need attention.

Accountability

Introduction

The government has accepted our recommendations for improving accountability

There has been significant progress and it is now time to take stock

In the 1993-94 and 1994-95 annual reports, nine recommendations relating to accountability were made, and all were accepted by the government. Amongst other matters, we dealt with the need to fully cost outputs, to provide better information on results, and to consider changes to the form of the Estimates. Also, the Office published 13 guidelines for assessing the effectiveness of an accountability framework. These covered standards for information presentation, the contents of plans, and the need to legislate an accountability framework.

Through government initiatives and by addressing my recommendations, the government is making significant changes in all aspects of accountability. More change will occur as work continues. I think it appropriate for me to take stock of where we were and now are, and to look into the future to see where we are going. In this report, I will review the status of my recommendations and discuss the need to issue an audit opinion on performance measures.

*In the past, useful
accountability
information was limited*

Looking back a number of years, little or no information was provided on results. Plans, when made, were rarely published, annual reports were late and incomplete, and the Estimates did not provide information on the cost of outputs and performance targets. Ministers reported to the Assembly on individual organizations and not in the context of their ministries. The General Revenue Fund, rather than the consolidated statements of financial position and operations, was the focus of attention.

Change has been rapid

The speed of changes in accountability reporting has been rapid. Some major milestones are:

- early 1994—three-year business plans published in *A Better Way*
- spring of 1995—the Government Accountability Act passed
- June 1995—performance information published in *Measuring Up*, with my report on the results of applying specified auditing procedures to core measures
- September 1995—performance measures included in all departmental annual reports
- February 1996—plans and performance targets included in the *Agenda 96* budget documents tabled with the Estimates

*Change has been
fundamental*

In addition to improved performance reporting, fundamental changes have been taking place within the bureaucracy, driven by the need to improve the way government does business and to control the deficit. A significant change is the delegation to Deputy Ministers of the decision-making authority previously vested in the Treasury Department, and other central agencies such as the Personnel Administration Office.

*The government's
performance reporting is
timely and much
improved*

In June 1996, the government published its second *Measuring Up* performance report, which was much improved over the previous year. Also, the Government of Alberta released its annual report, which included the consolidated financial statements of the Province. This annual report contained an accountability statement signed by the Provincial Treasurer and a management responsibility statement signed by a Deputy Provincial Treasurer and the Controller. These are important statements which acknowledge the Provincial Treasurer's responsibility for the Consolidated Annual Report and management's

responsibility for the Province's Consolidated Financial Statements. In September 1996, Ministers will table ministry annual reports and these reports will include ministry performance measures. To implement and integrate performance measurement at all levels of a ministry, staff are realigning management systems to better support core businesses.

Ministry annual reports for 1997 will be comprehensive

Looking down the road to March 31, 1997, we see the next major evolutionary change in accountability reporting. Ministry annual reports will include consolidated financial statements for the ministry and financial statements for the components. Performance measures will continue to be reported and responsibility statements will be included. I will provide audit assurance on the financial statements. Also, I expect that there will be further improvement in all areas of performance reporting. Significant change will continue to take place in the various organizations of government as they continue to integrate and implement performance measurement.

Credible performance information will drive decision making

Looking further down the road, we see the continued integration of performance reporting into budgets and general purpose financial reports. Public sector workers will receive regular feedback on results through better management systems. And the provision of audit assurance will be extended to different types of performance information.

The changes in accountability are working and are necessary for better performance

Have the changes made a difference? I believe the answer is—Yes. Evidence can be found in Hansard. During committee of supply and public accounts meetings, time and again, Ministers are being asked to explain results. I see evidence of the new accountability in meetings, plans, reports and even newspaper articles. There is an increasing awareness that the government must demonstrate when it spends money that it does so with an understanding of the desired result and that the government should provide objective information on what was actually achieved. As people gain a better understanding of the information provided, there will be pressure for even more useful information. As planning decisions improve, so will performance.

1994-95 Recommendations

In last year's report, I recommended to the government that:

- The government should review the form of the Estimates to assess whether information on the cost of outputs and performance targets should be included.
- Plans, annual reports and financial statements should provide information on outputs. Further, plans and reports provided by organizations to their ministers should identify the outputs to be produced and the expected full cost of the outputs. These plans should show the contribution the organization will make to ministry and government goals.
- The Province should develop systems to allocate all costs that are material to organizations that are responsible for delivering outputs.
- Financial reports should include supplementary performance information.

*Accountability
information must be
based on outputs*

The above recommendations deal with accountability reports, from plans and budgets to performance reports that set out actual results. Regardless of whether reports are tabled in the Legislature or provided to a Minister, they should integrate cost information with information on effects. In my view, the best way to do this is to base the information on outputs. It is through outputs that readers will get the information needed to assist them in making funding decisions and to hold Ministers and public servants accountable.

*A significant first step in
reforming the form of the
Estimates has been taken*

Plans, performance measures and consolidated ministry budgets were presented in the budget documents provided to the Assembly for review. This is a very significant change. For the first time, Committee of Supply had information on results available during debate. Based on the observed improvement, I believe there is no need to repeat the recommendation. I will continue to monitor progress and provide additional advice as appropriate.

More work is needed

The government continues to improve its ministry plans. Its first step to improve plans is to ensure that the results it wishes to achieve are identified and this task has been the focus of the government's efforts. The next step is to ensure that outputs delivered by government are accomplishing the desired results. The final step is costing of outputs. The shift to a focus on results and relating these results to costs based on outputs is difficult and consequently slow. Earlier this year, the Deputy Provincial Treasurer, Budget and Management, provided me with a plan that calls for the full implementation of my recommendations over the next several years. The plan anticipates a lengthy time frame to allow changes already initiated to be completed. Systems within the government have to be adjusted to meet the new reporting requirements and changes in budgeting must precede changes in reporting. By way of analogy, the architectural plans for the whole development exist but the detailed design for each site is still being done.

My staff is committed to help the government move forward

My staff have been working with ministries and Treasury to assist in the change. In the last year, there has been particular emphasis on developing common reporting practices for departments and ministries. For example, two senior members of the Office worked on the project to identify and resolve reporting issues with departmental and consolidated ministry financial statements. Also, my staff have helped with improving performance measurement. For example, we have initiated a review to offer advice on ministries' performance measures and the systems necessary to support them. In my opinion, employing my resources to assist Ministries in implementing change is sensible and cost-effective in that there is a strong possibility that issues are dealt with before they become problems.

Overall, progress in improving government accountability is satisfactory and proceeding according to plan

As progress with government accountability is satisfactory, I have not repeated recommendations of prior years or provided additional ones this year. My Office is committed to assist in the implementation of the recommendations already made. I will continue to monitor progress in implementing the Deputy Provincial Treasurer's plan. If I note implementation problems at the ministry or government-wide level, I will provide specific recommendations to assist in the solution.

**Auditing performance
measures**

*We will conduct
specified procedures on
the March 1997 ministry
annual reports*

The government believes that performance measures must be audited to be truly useful. I agree. To date, I have not imposed the rigor of an audit on emerging reporting practices, with the exception of work at the Southern Alberta Institute of Technology discussed on page 39. I took this course to allow both the reporting and auditing of performance measures to develop. Also, I felt it was important for a set of common standards to be developed. Although I have not conducted an audit, I have been able to conduct specified procedures on performance information, and I have commented on the results of those procedures. An example of this style of reporting is in *Measuring Up* for both 1995 and 1996. My staff will be meeting with each of the ministries to determine the extent of credibility I can add to ministry performance measures, starting with the March 1997 annual reports.

*The difficulties in
auditing performance
measures are being
addressed*

A number of initiatives are underway that are helping to address my concerns with conducting audits of performance measures. For example, I am working with other legislative audit offices to propose a set of standards for performance reports. Also, auditing standards are being developed by the Canadian Institute of Chartered Accountants. Most importantly, the government and ministries now have at least two years of experience with measuring and reporting on results. In other words, the systems used to collect and report information on performance are taking shape. And the audit profession and my staff are gaining experience in how to audit performance measures.

*The target date for the
audit of performance
measures is March 1999*

In keeping with the current practice of the government, I think it useful to set a target for issuing an audit opinion on performance measures reported in the government's annual report and in ministry annual reports. I am proposing that performance measures included in the March 1999 annual reports be audited. My staff will work with the performance measurement community in government to develop a plan to achieve this target.

Lottery Fund

year ended March 31, 1996

Scope of audit work

In addition to the annual financial audit, my staff conducted an examination of the accountability process in place for expenditures of the Lottery Fund.

Background

The Lottery Fund pays grants to support, cultural, agricultural, community, recreational and other activities

Lottery Fund grants amounted to approximately \$123 million in 1995-96. Of these, \$32 million are capital grants made under the Community Facility Enhancement Program, \$7 million financed the cost of medical equipment, \$12 million is a capital grant made to the Edmonton Concert Hall Foundation and \$72 million was used to finance the operations of grant beneficiaries. Over the past several years, Lottery Fund grants have been used to provide government support for culture, community development, agriculture, recreation, health, tourism, education and environmental protection.

The Lottery Fund receives revenues from lottery schemes operating in Alberta

The Lottery Fund was established so that revenues received from the operation of lottery schemes licensed under the Interprovincial Lottery Act could be administered separately from other revenues of the Province. Lottery revenues, less certain administration costs, are deposited into the Lottery Fund. Grants are paid out of the Fund as authorized by the Minister Responsible for Lotteries and in accordance with the annual amount voted by the Legislature under the authority of an appropriation act.

The Minister sets reporting requirements for grant beneficiaries

The general conditions of each grant require that beneficiaries submit business plans, quarterly reports of grant recipients and amounts and purposes of grants, annual reports (where published) and audited financial statements.

The Minister has requested assistance from other ministers

The Minister Responsible for Lotteries has recognized an overlap with the other ministries established to provide government programs and services in areas receiving lottery fund grants, and has requested, in writing, the assistance of the other ministers in the administration of the majority of the grants. The exceptions comprise grants made as part of the Community Facility Enhancement Program, grants to fund "high-tech" medical equipment, and the grant to the Edmonton Concert Hall Foundation.

Reliance is placed on other ministries for accountability from grant beneficiaries

Although the exact nature of the required assistance is unclear from the written requests, in practice, Lottery Fund management (now the Alberta Gaming and Liquor Commission) places complete reliance on the other ministries to ensure that conditions for the use of grants are met. It is not provided with the nature and extent of the follow-up work performed by the other ministries where grant beneficiaries have failed to provide required reports. Nor have the other ministries provided Lottery Fund management with the results of reviewing reports submitted by grant beneficiaries.

Lottery Fund accountability

Recommendation No. 1

It is recommended that the Executive Council improve the accountability framework for grant expenditures made from the Lottery Fund.

Benefits resulting from use of Lottery Fund grants are not known

The Province is not determining whether it is achieving the expected benefits from the use of Lottery Fund grant expenditures.

There is no requirement for beneficiaries to report results in terms of the expectations established in the business plans.

Beneficiaries are selective as to the information they report

It is acknowledged that audited financial statements provide the basis for a comparison of revenues and expenditures with targets. Also, annual reports, where published, contain information that can be related back to business plans. However, beneficiaries are selective as to the information they include in annual reports and, as a result, the Province cannot determine the extent to which expected results are achieved. A comparison of results against expectations is crucial to decisions as to whether to continue to award grants in individual cases.

Division of responsibilities may have contributed to a lack of accountability

In the view of the Office, the division of responsibilities whereby one minister provides the funding and another minister reviews the results of that funding, may have contributed to the inadequate accountability for Lottery Fund grants. It is difficult for other ministries to impose additional reporting requirements to those set by the Minister Responsible for Lotteries after the grants have been authorized. For this reason, this Office is advocating that responsibility for administration of Lottery Fund grants, including ensuring accountability by beneficiaries for results against expectations, be placed entirely with the Ministry responsible for providing programs in the areas serviced by the Lottery Fund grants.

Other ministries could be voted Lottery Fund monies which are to be used to carry out government policy

This could be achieved by a similar process used in past years for expenditures made from the Capital Projects Division of the Alberta Heritage Savings Trust Fund. As part of this process, expenditure budgets were authorized by annual appropriation acts which placed responsibility for managing expenditures with the relevant ministries. Accountability by the grant beneficiaries flowed directly to these ministries.

Currently, legislated responsibility and accountability lies with Lottery Fund management

At present, annual Lottery Fund expenditures are made the subject of annual appropriation acts of the Legislature. To date, the appropriation acts for the Lottery Fund have authorized expenditures in total only. The Legislature has not voted the constituents of the total to the relevant ministries.

Improved accountability will provide assurance that grants are spent as intended and desired results achieved

The Province would benefit from a review of the accountability framework presently in place for Lottery Fund expenditures and from a strengthening of reporting procedures to ensure that monies are spent as intended and desired results are achieved.

Rewarding Performance

The government implemented a program to reward exceptional performance

Recently, the government implemented a program called “Productivity Plus” to reward exceptional performance by public servants. I compliment the government for taking this first step in implementing a tentative system to recognize the contribution of public servants in relation to the success achieved by government programs. As I believe the Program was not effective, I have returned to the subject of rewarding performance.

If salary increases are linked to improved cost-effectiveness they will likely be viewed by Albertans as appropriate

In my last report (page 55), I stated that if increases in public sector salaries were linked to demonstrated improvements in cost-effectiveness of government operations, I believe Albertans would consider such increases reasonable and appropriate. I also stated that managers are handicapped because they cannot provide financial rewards to those who improve the cost-effectiveness of government operations.

The Productivity Plus program had defined eligibility criteria

The Productivity Plus program provided bonuses to public servants selected by the Deputy Ministers based on the following criteria:

- An organization’s detailed Productivity Plus proposal had to set out the significant contributions that resulted in exceeding government business plan targets through expenditure savings, revenue generation, improved client service or other productivity gains. The proposal had to be approved by a central committee chaired by an MLA.
- Total costs were not to exceed the lesser of 2% of the eligible payroll and 10% of savings.
- No more than 30% of the eligible employees of an organization could receive a bonus.
- Eligible employees were managers and non-union employees who were employed prior to March 31, 1995, and were still employed by the government.
- The amount received by an individual was not to be more than \$10,000 or 10% of his/her salary.

- The total cost of the program was not to exceed \$5 million.

Approximately 6,000 employees were eligible to be considered to receive a bonus. However, some departments chose not to participate. Approximately 1,300 employees received a bonus. About 24,000 employees could not be considered for rewards.

Compensation programs should be the responsibility of management and support the organization in achieving expectations

An appropriate employee compensation program is critical to the success of any organization. One of the most important duties of any organization's management is the development and implementation of an appropriate compensation program. In fact, there are many different models of a compensation program. Key to any program is that it must advance the goals of the organization and be consistent with organizational values. To meet the performance demands of owners in the private sector, and policy makers in the public sector, managers need flexibility to implement appropriate programs.

Organizations risk failure if they have inappropriate compensation programs.

Bonus programs such as "Productivity Plus" are just one part of a comprehensive compensation program. For example, the government's compensation program includes salary ranges, maximum pay levels by position and benefits packages. Specific components need to be considered in the context of the whole package. Also, factors such as ability to pay and market forces have to be considered. If the compensation package is inappropriate, then organizations cannot retain or replace the needed skills. Many jobs in the public service are complex, requiring superior skill. If its compensation programs are not competitive, the government risks, among other things, not achieving its objectives.

Employees should understand the compensation program under which they work

To obtain the greatest value from a compensation program, employees must have a clear understanding of what it takes to benefit and what benefits will accrue to them, prior to carrying out the work. Also, early recognition of superior performance will increase the potential to influence employees.

Productivity Plus was a first step in rewarding performance but was arbitrary

In my opinion, the Productivity Plus Program was arbitrary and provided limited management flexibility. Participation was limited to 30% of eligible employees. Therefore, some employees who had made an exceptional contribution to an organization's goals during the current or prior period could not be rewarded. Unions did not agree to allow their members to participate and those hired since March 31, 1995, were not eligible. Finally, providing rewards in 1995-96 for exceptional work in 1993-94 and 1994-95 is too far removed from the time the contribution should have been recognized.

Overall budgetary control coupled with performance reporting is a framework within which management can be given flexibility to reward performance

As stated in the 1994-95 Annual Report (see page 56), I believe that performance could be safely rewarded if management was given the authority to reward, within approved budgets, those employees who contributed to improvements in the cost-effectiveness of operations. With the increased emphasis being placed on the reporting of an organization's performance, management can be held accountable for its decisions, including those related to manpower costs. With this approach, the government can be satisfied that overall budgetary control is maintained while at the same time providing management with the flexibility needed to properly remunerate the employees who have contributed to the success of the organization.

Ministry Annual Reporting

A new form of Ministry annual reports will be established by law

I understand that in the fall of 1996, the government expects to proclaim the remaining sections of the Government Accountability Act (GAA), including Section 14. This section will set out a new form of Ministry annual reports starting with the March 1997 reports. Annual reports will include consolidated Ministry financial statements, financial statements of each of its components, a message from the Minister on results achieved in the government's core businesses, a comparison of actual results and planned results, and a summary of expenditures under each appropriation in the Ministry. In addition, Section 15 of the Act requires a Minister to provide a statement of responsibility for information used to prepare the Ministry's annual report.

There is much interest in improving annual reports and we have surveyed the best of them

There are many examples of effective annual reports being produced in Canada today. Also, the Canadian Institute of Chartered Accountants, the American Institute of Certified Public Accountants, the Governmental Accounting Standards Board in the USA and the Office of the Auditor General of Canada have, or are developing, criteria for judging the effectiveness of annual reports. The common goal of these organizations is improvement in the quality of information in an annual report, and the public's confidence in it.

Additional information above GAA requirements will be useful

The provisions in the Government Accountability Act go a long way to improving performance reporting in the Province and satisfying the primary decision making needs of readers. The following discussion, under the headings **Management Discussion and Analysis, Forward-Looking Information, Governance, Background Information and Communicating** summarizes typical information that will be provided in quality Ministry annual reports.

Management discussion and analysis

Management discussion and analysis should candidly focus on results relative to goals, change, trends, risks and opportunities

In an effective annual report, management discusses the dynamics of Ministry business and candidly analyzes its performance with sufficient insight to allow readers to evaluate the Ministry's performance and future prospects. Management must present a balanced discussion, including key reasons, of achievements, areas for improvement, and performance sustainability. Financial statements, disclosures of commitments and costs, and key performance indicators should form the foundation of analysis. To be useful to readers, management's discussion and analysis should:

- interpret actual performance relative to previously disclosed Ministry plans and historic performance.
- analyze performance emphasizing outcomes and key factors affecting the results, supported by general analysis of significant programs or activities.
- discuss events and uncertainties that could cause historically reported performance information not to be indicative of future performance or financial condition.
- communicate significant actions, policy changes, changes in Ministry objectives or business environment impacting results; highlight significant conflicting objectives and trade-offs made; analyze the Ministry's capacity to adapt and meet future challenges.

Forward-looking information

Forward-looking information which demonstrates the Ministry's ability to meet challenges is needed

Forward-looking information should also be provided. This information would present an outlook on where the Ministry is going and key opportunities and risks it faces by business segment, and in general terms, the strategy it will take to meet its objectives. Management should identify key factors used in making decisions so readers can then make their own informed evaluations. An effective annual report should discuss forward-looking information on:

- future trends, events, changes in the industry the Ministry serves or economic conditions, and the impact on future operating results, or anticipated but less predictable impacts of a known event, trends or uncertainty.

- the direction in which management intends to lead the Ministry, including a vision from the top and an overview of its plans reflecting opportunities, risks, measurement uncertainties and future of the sector.
- key assumptions made in preparing plans and related uncertainties providing further insight about the opportunities and risks the Ministry faces.
- how management intends to improve performance in future years.

Governance

Information on how things get done and who does what is important

To better understand how a Ministry achieved its performance results, its capacity to cope with future risks and capitalize on upcoming opportunities, readers need information on governance, stewardship and management including:

- Minister and executive management identity, background, and experience and relevant affiliations with other organizations, changes in management, procedures used in recruiting new managers and in assessing management performance.
- management structure, classification of decisions requiring prior approval by the Minister, list of key committees, committees' goals and activities and whether or not those goals were met.
- dates of Ministry public meetings, key contacts inside the Ministry, measures for oversight of external communications, including receiving MLA and public feedback and dealing with concerns.
- list of organizations accountable to the Minister, or organizations through which the Minister accomplishes goals, and the nature of the relationship with these organizations.

Background information

Background information provides a foundation for a reader's analysis of a Ministry

Background information about a Ministry gives a picture of what the Ministry does, its objectives and its strategies. It provides a mental image of the Ministry's business engines that generate results relative to goals, require investment, and generate or use cash flows. It should include:

- explanation of the nature of a Ministry's business environment, including the linkage between events, activities, and the impact on performance results and financial condition of the Ministry.
- discussion of the general nature of Ministry operations, products or services and financial requirements.
- identification of constituent, market or sector issues, risks and uncertainties relative to regulatory, social, environmental or economic responsibilities.

Communicating

Presentation is an important part of effective communication

To communicate effectively, an annual report should disclose important information at a glance. The report should be organized into discrete sections which provide readers with pertinent information in a few pages to give a complete story without muddying the issues or being repetitive. Report information should:

- be organized in a fashion that allows readers to locate different types of information quickly.
- integrate financial statements and key performance measures, including comparatives, into discussions and analyses to eliminate redundancy, streamline reporting, and provide only the information that readers need in decision making.
- use charts, graphs and pictures incorporating innovative visual effects and maintaining graphical integrity to improve management's presentation and readers' comprehension of the information.
- use language and style which is simple, clear, concise and generally without jargon.
- set apart promotional or self-congratulatory presentations from discussion and analysis of core information.

What needs to be done

Guidelines will be developed

In the weeks to come, our Office intends to participate in the government's efforts to develop guidelines for Ministry annual reports. As part of this process, it is hoped that Ministries, readers and auditors will agree on the elements of information on which auditors should report, and the nature of the auditor's association with the information in those elements.

Standards for auditors providing assurance are evolving

In addition, our Office, the Canadian Institute of Chartered Accountants and others are working on how auditors will meet increasing demands for assurance with the goal of improving the value of performance information and the public's confidence in it.

Leadership in presenting effective annual reports will be recognized

As a means of encouraging improvement in public sector reporting, my Office is discussing, with the Institute of Chartered Accountants of Alberta, the possibility of establishing annual awards for the best annual reports produced by Alberta public sector organizations. Experimentation in what makes an effective Ministry annual report is necessary and should be rewarded. More information on this award will be provided when it becomes available.

Code of Conduct and Ethics for Public Service Employees

An updated Code of Conduct and Ethics is near completion

I am pleased to be able to report that the Personnel Administration Office is close to finalizing a draft of a revised Code of Conduct and Ethics for employees appointed under the Public Service Act. We were able to assist in the process by reviewing the draft. My general impression is that the revision will result in an improved Code that will be more useful in determining appropriate behaviour in today's public service environment. One suggestion in the Auditor General's 1993-94 Annual Report was that the Code be accompanied by examples to illustrate the application of the policies. This suggestion has been adopted. Also, there is now guidance for employees who are seeking employment with parties who conduct or expect to conduct business with their present employer. We view this addition as most helpful.

The Code does not apply automatically to all employees using public funds

In our view, the Code should be put forward as a regulation when it is finalized. However, the Code applies only to employees appointed under the Public Service Act. This means that the Code does not apply to conflict of interest issues affecting Provincial agencies generally, advanced education institutions, regional health authorities and school boards, all of which receive significant public funds.

Organizations receiving significant public funds should consider adopting the revised Code

Once the revised Code is finalized and issued, it would be appropriate, in my opinion, for the organizations referred to above, which receive significant public funds, to consider adopting the principles of the Code and its policies as the minimum standard of behaviour expected from their employees. To take advantage of the considerable research and effort to produce a Code appropriate for today's public sector environment would be efficient and, moreover, would ensure that all such organizations were guiding their employees comparably.

Year 2000

Year 2000 compliance

Recommendation No. 2

It is recommended that the Office of the Chief Information Officer evaluate ministerial plans and monitor progress towards ensuring that information technology is Year 2000 Compliant.

Action has been taken to address the Year 2000 problem, but more needs to be done. I will set out the problem, discuss actions to date and state what additional steps are necessary.

Systems may fail on January 1, 2000

Some information systems may not operate as designed as a result of the turning of the millennium. Many systems do not provide for dates with years greater than 1999 because they use only two digits to identify the year, and/or perform date calculations based on the assumption the year is in the 20th century. All systems can have these problems whether they are custom built application systems, packaged software, or operating systems. As well, mainframe and personal computer hardware can have internal clocks that may not handle the turn of the millennium. Independent research groups have estimated that 90% of application systems will be affected; 20% will fail before being changed; and the resources required to make systems "Year 2000 Compliant" will be substantial. A medium-sized

organization could spend up to \$5 million making its systems Year 2000 Compliant. One Alberta department has estimated 1,300 person days would be required to convert an existing mission critical system to be Year 2000 Compliant. We estimate the cost of this conversion will be \$650,000.

The Alberta government makes extensive use of computers

Alberta government business processes are highly computerized. Complex systems are integrated internally, between departments and agencies, and externally with the public, vendors, and other levels of government. The systems critical to the operations of the government use many different types of hardware, software, and database technologies. Some applications are run at government information technology centers while others are outsourced.

The government is exposed to the risk of systems failure

My staff have completed a review of the government's steps to ensure that information technology is Year 2000 Compliant. After discussions with a number of major government organizations, we concluded that there is a risk that government information technology will not be Year 2000 Compliant.

Organizations are aware of the problem, but more action is needed

We observed that all organizations were aware of the Year 2000 problem and had taken some steps to deal with it. Also, the Department of Public Works, Supply and Services is looking at alternative ways of assisting organizations. However, typically, organizations do not have comprehensive plans related to solving their Year 2000 problems. Therefore, all aspects of information technology, including hardware, software (both purchased and developed internally) and various data sources have not been addressed.

The CIO is responsible for the Year 2000 solution

The Office of the Chief Information Officer (CIO), which was established in 1995 within Executive Council, is responsible to develop and coordinate the implementation of a government information technology strategic plan. Also, the CIO will provide guidance and a framework for Ministerial plans and initiatives. Addressing the issues surrounding Year 2000 Compliance of systems falls within the CIO's mandate.

A Committee has been established to coordinate the response to the Year 2000 problem

In July 1996, drawing on my preliminary findings, the CIO established a committee to address the Year 2000 problem. The Principal responsible for computer services in my Office is a member of the Year 2000 Committee. The Committee has been asked to work with Ministries to develop a strategy to address the issue, to produce an inventory of all affected systems, and to provide a central repository of information about the problem. To perform these tasks, I understand the Committee will use the technical expertise available within the Department of Public Works, Supply and Services. I also understand that Ministries will prepare their own plans using the strategies developed by the Committee.

The CIO needs to work with Ministries to ensure that information technology is Year 2000 Compliant

The establishment of the Committee is a positive step. In addition to the tasks assigned to the Committee, there are other tasks that should be considered to ensure that government systems are Year 2000 Compliant. In my opinion, for the CIO to ensure that information technology is Year 2000 Compliant, the work with Ministries should include:

- developing strategies to address all aspects of information technology compliance,
- monitoring the implementation of the strategies,
- addressing issues that arise as a result of implementing the strategies,
- ensuring that Ministerial plans are comprehensive, including,
 - setting out the extent of the risk by identifying all software, hardware and internal as well as external data sources relied upon by the organization,
 - setting out the steps necessary to manage the risk and the related cost,
 - identifying resources required to make systems Year 2000 Compliant, and
 - providing for contingency actions if systems cannot be modified in time,
- determining whether resource budgets and timelines appear reasonable, and

- determining whether work to complete the plans is progressing in time to modify the systems before the operations of a Ministry are adversely affected.

Quick action provides the government with a good chance of success

The Committee's early attention to these tasks is important as the time remaining to deal with the problem is running short. If significant modifications are required to any major systems, there is a risk that resources may not be available to complete the work in time. The CIO's quick action in establishing the Committee and placing a high degree of importance on the issue are critical to the government's success. I understand that in response to my report, the CIO has asked the Committee to review its terms of reference so that my concerns will be addressed.

PeopleSoft Project

Structure of the PeopleSoft Project

The Deputy Ministers' Steering Committee is changing the structure of the Project

My previous report identified risks related to a new financial system

There are three Project teams and rollout will begin in April 1997

Recommendation No. 3

It is recommended that the Deputy Ministers' Steering Committee restructure the PeopleSoft Project with the objective of enhancing coordination and integration.

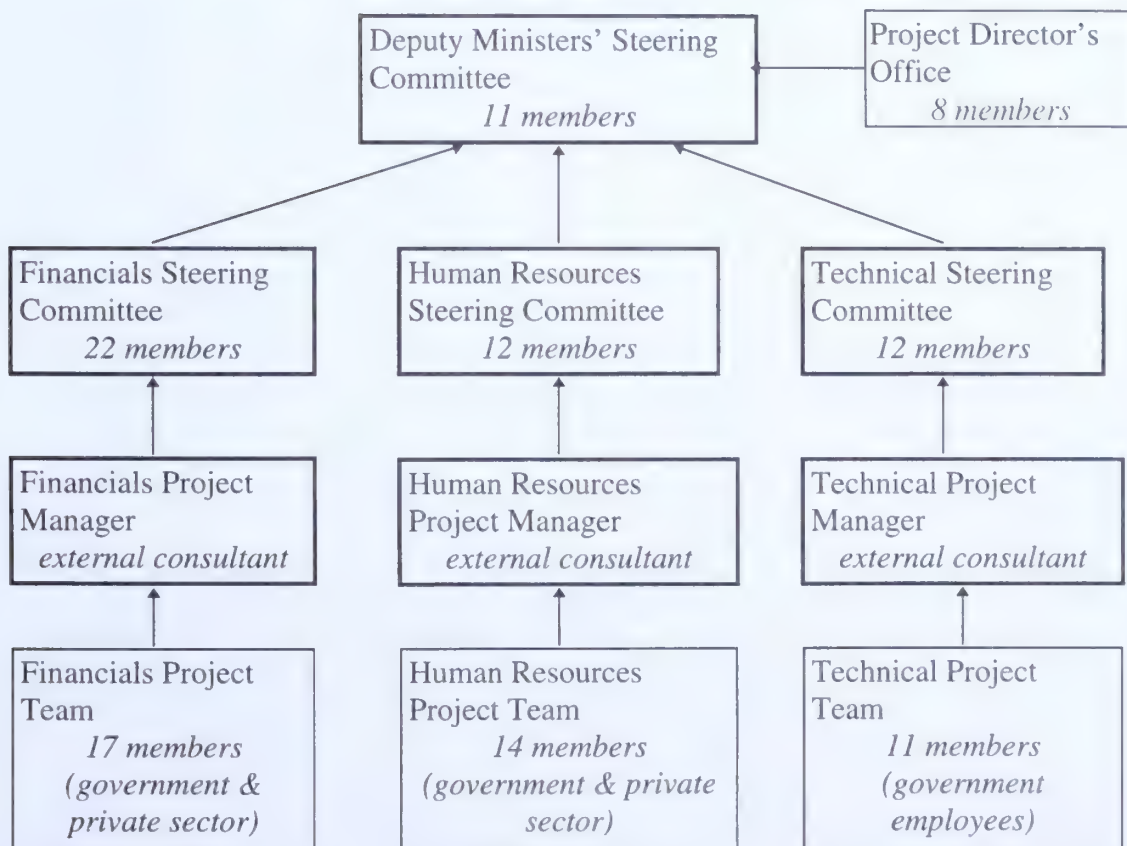
At this writing, the Deputy Ministers' Steering Committee is in the process of making changes to the Project structure. Given the speed with which the Project is developing, it could be that my concerns about the need for improved coordination and integration and some of the other issues mentioned here may have been addressed by the time that my report is released.

In my 1994-95 annual report (page 172), I commented on the government's proposed Integrated Financial System (IFS). At that time, IFS was expected to replace several of the Province's existing financial systems including the Departmental/Central Financial System. My report identified a number of risks and concerns associated with this Project. Accordingly, I recommended that the Treasury Department closely monitor the strategy, progress and implementation of the government's new accounting system. Since that time, the Project has expanded to include human resource systems, including the Province's payroll system.

In December 1995, a consultant prepared a report "to develop strategic implementation and costing plans for ... the PeopleSoft Financial modules throughout the

Government of Alberta". In February 1996, the Human Resources Directors' Council recommended the acquisition of PeopleSoft's human resources modules. Based on these reports, the Department of Public Works, Supply and Services purchased PeopleSoft's financial and human resources applications for \$5 million in March 1996. At the same time, a structure to manage the development of what is now called the PeopleSoft Project was defined. A Deputy Ministers' Steering Committee was established to oversee the Project and decide on matters of government policy, standards and funding. This Committee is supported by a Project director and three sub-committees, namely the Financials, Human Resources, and Technical Steering Committees. Consultants have been contracted to serve as Project managers for the Financials and Technical Project teams, and a manager for the Human Resources team will be contracted in the fall. The three Project teams have been staffed at the levels indicated in the following chart. Rollout for the General Ledger and Accounts Payable modules is scheduled to begin in April 1997.

PeopleSoft Project Reporting Structure



*The Project structure
could be improved*

I believe that the structure of the PeopleSoft Project could be improved to facilitate development and implementation activities. In general, I am concerned that there are now three sub-projects addressing a single integrated software program. For the PeopleSoft Project to succeed against the current schedule at the anticipated cost, all areas affected by the Project must be closely coordinated and integrated. For example, the Payroll module in the Human Resources area will have a significant impact on the Financials area, and vice versa. The activities of the Technical area will affect both Financials and Human Resources. Initiatives, such as meetings between committee chairmen, currently help to coordinate activities. However, I believe that structural changes could enhance integration both within the Project and between the Project and the Department users.

*“Champions” facilitate
timely, coordinated
decision making*

For example, the current structure for the Financials and Human Resources sub-projects features Project managers, who are external consultants, reporting directly and solely to the Steering Committees. As currently organized, the Project managers and the teams which they direct would need rapid and consistent decision making from the Steering Committees if they are to succeed. However, the Committees from whom they would seek direction meet approximately bi-weekly. The Committee members are fully occupied by their regular responsibilities; for instance, the members of the Financials Steering Committee are the Departmental Senior Financial Officers. A possible solution could be to install an experienced government employee as “champion” between the Project manager and the Steering Committee. The champion would liaise with the Project manager and Project team on behalf of the Steering Committees, thereby facilitating vertical integration. The champion could also facilitate horizontal integration by liaising with the other sub-projects. Consideration might be given to installing only one champion to serve both the Financials and Human Resources sub-projects.

*Many challenges need to
be addressed*

From the time that the software was purchased in March 1996, the Project progressed at a rapid rate. However, many significant matters need to be addressed. The following examples highlight the challenges which face the Project:

- Detailed objectives have not been established against which the benefits of the implemented systems can be measured.
- Some departments have not addressed the business design and policy questions that will be raised in the course of system development.
- The existing government-wide and departmental computer networks have not been analyzed to ensure that they can handle the increased traffic without disruption in service.
- The Treasury Department has government-wide financial responsibilities, but has not yet defined its requirements for the Project.
- The costs that will be charged to end-users have not been determined. These costs will include the payback of development costs as well as ongoing operating costs.
- Internal costs directly related to systems development have not been used to support decision making. Direct costs should include departmental staff seconded to the Project. These costs will also need to be capitalized in the financial statements of the appropriate entity.

My staff will continue to monitor the development of the Project

I recognize that there are many approaches to enhancing the structure of the Project and to addressing these critical concerns. My staff are monitoring the development of the Project by participating in committee work, reviewing activities such as consultant selection, and attending training sessions.

Department of Executive Council year ended March 31, 1996

There were no matters reported to management at the end of this year's financial audit.

Other entity

A financial audit of **Personnel Administration Office Revolving Fund** was also completed for the year ended March 31, 1996.



Guidance to reader

The Department of Advanced Education and Career Development's mission is to provide leadership and work with other partners, including the public post-secondary sector, to set new directions for adult learning, and to provide Albertans with an accessible, responsive and affordable system of quality adult learning that is accountable for results. In addition, the Department provides career counseling, information services, and apprenticeship and trade certification programs.

In 1995-96, the Department spent over \$1 billion, of which approximately 83% was to assist higher and further educational institutions. These institutions comprise four Alberta Vocational Colleges, four private colleges, two technical institutes, 11 public colleges, four universities, the Banff Centre, and three hospital-based nursing schools. Approximately 13% of the amount spent by the Department related to providing financial assistance to students through grants, bursaries and interest payments on student loans.

A significant achievement in the last two years has been the development of a set of key performance indicators (KPI) as a tool to assess the results of the post-secondary education sector. The Department and the sector have worked successfully on this challenging and complex project. Considerable work has yet to be done in this area, including the development of appropriate benchmarks which can be used as a reference point for assessing performance.

The Department has developed a method to collect and analyze performance related information. Draft manuals which deal with definitions and methodology have been issued, and a number of computerized systems are being developed. The Department has consulted with my Office to determine ways in which my Office's involvement can add credibility to performance information, and can contribute to beneficial changes in the system. I believe that once key performance information has been fully developed, it should form part of general purpose financial reporting. At that time, the audit opinion on the financial statements could also cover performance information. In the interim, I believe it is appropriate for my Office to carry out specified audit procedures, primarily to validate data submitted by institutions to the Department. This work has commenced at selected institutions.

Because KPIs will also be used for future funding of post-secondary institutions, it is critical that they provide relevant and reliable information. Also, when establishing benchmarks, factors such as the quality of education delivered, regional disparity among institutions and the role of an institution in serving community recreational needs should be considered. The Department and the post-secondary education sector should examine these factors so that performance-based funding truly improves system efficiency and program effectiveness.

During the past year, a number of institutions have requested my Office to review their performance reporting systems. In addition, the Department has also consulted the Office on various matters relating to financial statements analysis and performance measurement. It is obvious that there is considerable momentum to improve the sector's effectiveness. Our work at the Department and in the post-secondary education sector reported under this section was carried out to help the sector succeed. Due to limited resources, however, my Office has not been able to carry out work at all the post-secondary institutions. However, I hope that the sector can benefit from the examinations carried out at selected institutions.

Performance information

SAIT was the first institution to include performance information in its audited financial statements

The Southern Alberta Institute of Technology (SAIT) was the first Alberta post-secondary educational institution to include performance information in its audited financial statements. The June 30, 1995, financial statements include performance information on its outputs and the costs of those outputs. In addition, the costs of these outputs were linked to effects.

SAIT has demonstrated that it is possible to provide useful performance information

I believe that SAIT's reporting framework provides a practical example of what can be achieved in the post-secondary sector to demonstrate performance in a useful way. The key performance indicators (KPI) initiative discussed earlier has the potential to further improve SAIT's performance reporting by providing additional useful information.

SAIT's Board of Governors and senior management made a strong commitment to become more accountable and to report on performance

SAIT's Board of Governors and senior management were committed to become more accountable and to report on SAIT's performance. This meant that resources were allocated to this project, responsibilities were clearly assigned, and timelines were set. In order to identify SAIT's outputs and their effects, considerable research and discussions were necessary. Alternative reporting models and measures of performance were considered, and the quality of the information available had to be evaluated and improved. My Office contributed by examining the information used. Our criteria for the information reported were that it be understandable, relevant, reliable and comparable.

Providing performance information has helped improve cost-effectiveness

Feedback from external and internal users of SAIT's Annual Report has been positive. Stakeholders have a better understanding of SAIT's achievements. Also, staff now have a better appreciation of their contribution to SAIT's goals and mission. The discipline required to report externally on responsibilities through audited measures of performance provided management the opportunity to re-examine SAIT's mission, goals, and all its activities. For example, the reported employment indicators alerted program managers to re-assess their programs. For one such program, the method of delivery was amended to respond to the needs of the market.

SAIT's management should be congratulated on their initiative. I believe the reported performance measures can be further improved, and my Office will continue to work with management in this area.

Department of Advanced Education and Career Development year ended March 31, 1996

The Provincially owned universities, colleges and technical institutes, and The Banff Centre operate under the authority of the Universities Act, the Colleges Act, the Technical Institutes Act, and The Banff Centre Act, respectively. Their financial statements are not included in the Province's consolidated financial statements, but are included in Volume 4 of the Public Accounts.

Annual financial audits, for the year ended June 30, 1996, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in the next annual report:

**Alberta College of Art and Design
Fairview College
Fairview College Foundation
Grande Prairie Regional College
Grande Prairie Regional College Foundation
Grant MacEwan Community College
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Mount Royal College
Mount Royal College Day-Care Society
Mount Royal College Foundation
Northern Alberta Institute of Technology
Olds College
Olds College Foundation
Red Deer College
Southern Alberta Institute of Technology**

Scope of Audit Work

In addition to the annual financial audit, the following work was completed:

- An examination of the method used by the Department to monitor consistent and reliable application of its tuition fee policy.
- An examination of the methods used by the Students Finance Board to plan, monitor and report its activities.

**Tuition Fee Policy -
Background**

The tuition fee policy is designed to balance students' and Provincial needs

In order to make post-secondary education affordable to students and taxpayers, and to provide adequate access to students, the Department developed a tuition fee policy. This policy requires that tuition fees charged to students not exceed 30% of the post-secondary education institution's net operating cost. Tuition fees include fees for instruction for credit programs approved by the Minister, and other universal fees charged to students for services to facilitate instruction. The net operating cost for the purpose of this policy is the institution's expenses as reported in the audited financial statements, less expenses for non-credit and ancillary programs and expenses for those programs funded entirely by sources other than the Department.

The tuition fee policy is based on the following principles:

- All Albertans should have the opportunity to participate in post-secondary education, should their interest and ability lead them to do so.
- Both students and society should make a reasonable contribution to the cost of post-secondary education.
- Financial need should not be a barrier to participation in post-secondary education by qualified and motivated students.
- Fees should be reasonable and predictable to enable students and institutions to plan their finances.
- Institutions should be accountable to students for the level of fees set and services provided.

The tuition fee policy is designed to require students to make a reasonable contribution towards the cost of their education

The policy has existed for a number of years, but was revised in 1994 to encourage a reasonable contribution from students towards the cost of their education, and to give institutions the option of adjusting tuition fees to compensate for reduced operations grants from the Province.

Tuition fees as a percentage of net operating expenses can vary between institutions

Students attending Alberta post-secondary education institutions pay a variety of fees. The policy, however, applies only to fees for courses approved by the Minister. The tuition fee policy was not intended to cover non-universal fees such as those for the use of athletic and recreational facilities, laboratory use, health and counseling services, and the use of computers. Institutions may set tuition fees, having given due consideration to such factors as local market conditions, student demand and competition provided these are within the limits under the policy. As a result, tuition fees, as a percent of net operating cost, can vary considerably between institutions.

There is inconsistent understanding across the post-secondary education sector on how to apply the policy

Discussions between my staff and management at institutions indicate that there is no consistent understanding across the post-secondary education sector on how to apply the policy. Managers at a number of institutions are unclear on what constitutes “net operating expenditure” under the policy, or the type of recoveries from students that could be construed as “fees” within the policy. During a review at the Department and two post-secondary institutions, my staff identified a number of areas where a better understanding of the policy and guidelines could improve the system.

Tuition fee policy

Recommendation No. 4

It is recommended that the Department of Advanced Education and Career Development work with the post-secondary education sector to facilitate a consistent, reliable and well-understood application of tuition fee policy across the sector.

Some examples noted by my staff of differing interpretations of the policy, and the resulting accounting treatments were:

The basis for allocating costs between credit and non-credit programs has not been defined

- The guidelines issued by the Department state that net operating expenses should include overhead costs and amortization. However, the guidelines do not specify the basis to be used for allocations of such costs between credit and non-credit programs. Unless these costs are allocated properly, students may be charged an inappropriate amount for their contribution to the cost of education. A rational and systematic method of allocating costs would promote an equitable sharing of costs between students taking credit and non-credit programs.

“Ancillary Services” have not been adequately defined

- The guidelines state that expenditures for ancillary services should be excluded in determining the net operating expenses. The rationale being that since ancillary activities are not necessary for education, and are generally expected to break-even, students should not have to bear the cost through tuition fees. However, the guidelines do not adequately define what constitutes ancillary services.

Costs are not reduced by related revenues

- The guidelines are unclear whether revenues from services provided by students as part of their training program should be deducted when determining the net operating expenses. For example, an institution which collects fees for certain services provided to the general public as part of students’ training may decide not to reduce the costs of the training by the revenue generated. As a result, students could end up bearing the costs through tuition fees but not have the benefit of the related revenues.

A consistent application of the policy across the sector is vital

In order for the policy to be successful it must be consistently applied. To be consistently applied, it is critical that systems at the various institutions have the ability to provide the relevant information.

The Department should provide the leadership necessary to resolve the matter

I believe the Department can assist by clarifying its policy and guidelines and can work with the institutions to develop improved definitions on what constitutes revenues from fees for instruction and net operating costs for the purposes of the tuition fee policy. The Department and institutions should also develop a method to ensure reliable and comparable information is used for public reporting of tuition fee information.

Students Finance Board
year ended March 31, 1996

The Students Finance Board is responsible for delivering federal and provincial student assistance programs

The Students Finance Board (the Board) is responsible for delivering Canada Student Loan and Provincial Student Loan programs. The objective of the programs is to assist Alberta students so that financial need is not a barrier to pursuing post-secondary education.

Approximately 85,000 students benefit from the Board's programs annually

Every year, approximately 85,000 Alberta students benefit from various assistance programs administered by the Board. This includes about 55,000 students who apply for student loans to be underwritten by the federal and provincial governments. In 1994-95, approximately \$235 million in loans were approved. About \$110 million of this amount related to the Provincial student assistance program.

The average net debt load of students keeps growing

In 1995, the average outstanding student loan, after remission, was 40% higher than in 1992. Currently, students finish their studies with an estimated average outstanding loan of about \$11,500.

The private sector now assumes risk for loans approved by the Board

In September 1994, the Board implemented an income sensitive repayment system for Alberta student loans. Under this new program, the Board continues to determine eligibility for student loans, but no longer guarantees most student loans. The risk on these loans is assumed by two chartered banks. In consideration for underwriting the loans, the Province pays the banks a 5% risk premium.

Linking plans to goals and results

It is recommended that the Students Finance Board's planning be improved to include setting of specific measurable performance expectations for its programs, so that actual achievements can be compared against what was planned.

The Board has identified specific strategies to promote its objectives

The main objective of the student assistance program is to “ensure that financial need is not a barrier to learning opportunities.” To promote this objective, the 1996-99 Department Business Plan identified strategies which include:

- adjusting student assistance to accommodate annual changes in tuition fees;
- harmonizing the federal and provincial student loan programs;
- developing a debt management strategy for students; and
- reducing the proportion of parental contributions of the students’ total education costs by increasing the loan amounts to students.

The lack of specific measurable expectations may impede success

The operational plan has assigned responsibility for achieving each of these strategies and the milestone dates. In addition, considerable detail on specific actions, analysis of options, and estimated costs is also available. However, the operational plan does not identify specific measurable performance expectations. In the absence of such expectations, program managers may not be provided with sufficient direction on what is expected. This in turn, could impair management’s ability to measure whether the strategies are producing the desired results in a cost-effective manner.

It is not clear whether the goal of administrative efficiency has been attained

The 1994-95 Business Plan indicated that the objective of integrating the Learner Support Division and the Board was twofold - to increase responsiveness to clients, and to achieve administrative efficiency. Management is of the view that increased responsiveness was achieved through the decentralization of information and counseling services to regions where most clients now have direct access to these services. The Board has information on the estimated future cost to the Province for loans issued. However, this cost does not include such items as services provided at the Career Development Centres, and other support service costs. Further, at a Provincial level, post-secondary institutions also incur costs in dealing with students’ needs for assistance, but these costs have not been determined. Knowing the full cost of the program and comparing it to desired cost would enable management to improve program efficiency, identify overlap and duplication in the system, and help in the development of long-term policy decisions.

The Board would benefit from an improved system of planning

Opportunities exist for the Board to improve its systems to enable an objective assessment of the Provincial student assistance program. These system improvements can be achieved by setting specific, relevant and measurable performance expectations, defining information needs to enable assessment against expectations, and establishing a reporting process which links achievements with what was desired. Improved definition of expectations and more relevant cost information will also help the Department of Advanced Education and Career Development to discharge its role of monitoring the extent to which the Board's activities are contributing to the Provincial objectives, and would facilitate publicly reporting the Board's achievements.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1996:

Non-Profit Private Colleges Foundation
Public Colleges Foundation of Alberta

Matters related to Post-Secondary Educational Institutions

Athabasca University year ended March 31, 1996

In addition to the annual financial audit, my staff completed an audit of the **Athabasca University Foundation** for the year ended March 31, 1996.

Governance

In the 1994-95 annual report (page 66), it was recommended that Athabasca University's Governing Council review the University's management structure and reporting process, and consider the information necessary to ensure that collectively they are consistent with effective governance.

A number of initiatives are underway to improve the governance of the University - the size of the Governing Council will be reduced

I am pleased to report that the Governing Council has taken a number of initiatives to improve the governance of the University. As a first step, the Governing Council approved a strategy to reduce its size from 27 to 14 members by January 31, 1998.

The uncertainty over the responsibility for the Centre for Innovative Management has also been resolved

The Governing Council also resolved the uncertainty over responsibility for the Centre for Innovative Management by adopting policies and procedures that make the Centre accountable to the Governing Council. The ambiguities which existed in the Centre's management compensation contracts have also been resolved.

The role and responsibilities of AUEE have been reviewed, and a new Financial Information System should provide managers with better information

The activities of Athabasca University Educational Enterprises (AUEE), were reviewed and the University decided to discontinue the seminar series that AUEE offered. The University has also implemented a new Financial Information System designed to provide decision-makers with better information to manage the affairs of the University.

The University of Alberta
year ended March 31, 1996

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1996:

Alberta Microelectronic Centre
The Laser Institute
University of Alberta 1991 Foundation

The University has agreed to improve its measuring and reporting of sponsored research activities

In the 1994-95 annual report (page 69), it was recommended that the University of Alberta improve its measuring and reporting of sponsored research activities. The University has accepted the recommendation, but full implementation is likely to take place over a number of years.

Measuring and reporting on performance represents a fundamental change

I acknowledge that measuring and reporting on performance represents a fundamental change to the way that post-secondary educational institutions have operated in the past. To measure and report on performance requires a number of well coordinated strategies. As a first step, expectations in terms of required results need to be defined for all of the University's activities. Resources can then be allocated to achieve the desired results. The University's systems must be capable of collecting and analyzing information to facilitate reporting performance against expectations.

Budgets must integrate financial targets with expected outputs

I am pleased to note that in May 1996, the University's Audit Committee endorsed a report by its Sub-committee on the Delegation of Authority. A representative of my Office served as an advisory member to the Sub-committee. The recommendations in the report highlighted the need for the University to change its budget system so that it focuses on resource management and goal achievement. The report suggested that the budget process should involve the setting of expectations, with managers being provided the authority, resources and systems to achieve results and be accountable.

Implementation of the Audit Committee's recommendation would be a logical first step

I believe that implementation of the Audit Committee's recommendations would be a logical first step in improving the University's overall operations, including its sponsored research activities. The new financial and management information system scheduled for full implementation by April 1, 1998 could provide the support needed.

The University of Calgary year ended March 31, 1996

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1996:

University of Calgary Foundation
University Technologies International Inc., and
Olympic Oval/Anneau Olympique

The University of Lethbridge year ended March 31, 1996

In addition to the annual financial audit, my staff completed the financial audit of the **University of Lethbridge Foundation** for the year ended March 31, 1996.

The Banff Centre for Continuing Education year ended March 31, 1996

In addition to the annual financial audit, my staff is completing a financial audit of the **Banff Centre Foundation** for the year ended March 31, 1996.

Telecommunications Research Laboratories

It was recommended last year that TRLabs disclose salary and benefits and budget information

In the 1994-95 annual report (page 71), it was recommended that Telecommunications Research Laboratories (TRLabs) disclose in its financial statements the salary and benefits information required by the Treasury Board and the comparative budget information prescribed by the Provincial Treasurer. TRLabs was required to, but did not, disclose salary and benefits and budget information in its annual financial statements

The recommendation is no longer applicable

The recommendation is no longer applicable since, in February 1996, TRLabs ceased to be a Provincial corporation controlled by the University of Alberta.

Grant MacEwan Community College

Background

The College offers credit and non-credit programs through five academic divisions

Grant MacEwan Community College provides post-secondary credit and non-credit courses and programs through five academic divisions. These divisions are Arts and Science; Business; Health and Community Studies; Performing, Visual and Communication Arts; and Community Education. The budgeted expenditures of the academic divisions for the year ended June 30, 1996 were approximately \$31 million.

Three support divisions provide services to the academic divisions

The academic divisions receive services from three support divisions. Information and Instructional Services is responsible for information technology, library, research and planning; Student Services is responsible for Registrar, student counseling, and central services; and Operations is responsible for finance, facility operations, and human resources. The budgeted expenditures of the support divisions for the year ended June 30, 1996 were approximately \$16 million. Ancillary services, including the Sports and Wellness Centre, bookstore and cafeterias, had budgeted revenues and expenditures of approximately \$5 million.

My Office reviewed the planning, budgeting and reporting processes of the College

During the year, my staff reviewed the planning, budgeting and reporting processes of the College's academic divisions. Our work focused on the academic divisions because they have the prime responsibility for producing the outputs of the College, namely graduates. While the support divisions are significant components of the College operations, in our view they exist mainly to serve the academic divisions. In essence, the outputs of the support divisions are inputs to the academic divisions in producing the ultimate outputs of the College.

The College has undertaken some significant initiatives to improve corporate accountability

The College has undertaken a number of significant initiatives to improve corporate accountability. For approximately 10 years, the College has monitored and reported to the Board performance indicators such as student and employer satisfaction and graduate success. Recent initiatives include development of a Collaborative Governance Model which facilitates participation in policy-making decisions by affected stakeholders including staff, students, and employers. The College is also implementing systems to support the Department of Advanced Education and Career Development's Key Performance Indicator (KPI) reporting, and program costing reporting requirements.

Essential elements of accountability exist within the divisions

At present, the planning and reporting processes within the academic divisions contain essential elements to promote accountability for results. For example, the divisions have developed:

- a statement of goals and objectives,
- an overview of the core activities of the division,
- an analysis of the business risks and critical success factors of the division.
- the curriculum to be offered,
- a description of actions proposed to achieve the goals and objectives and manage the risks of the division, including projected milestone dates and/or qualitative targets by which successful completion of the actions can be measured,
- a financial budget summary, including FTE employees where applicable,
- enrollment projections, and
- KPI targets, including the Department of Advanced Education and Career Development's KPIs relating to the division and selected internal performance measures critical to successful management of the division.

Planning and Reporting

Recommendation No. 5

It is recommended that Grant MacEwan Community College improve the communication of planning and reporting information between the academic divisions and the Board of Governors and senior management.

Two-way communication between the divisions and the Board and senior management is needed to set expectations

Information provided to the Board of Governors and the senior management group should be such that it integrates operational and financial data and defines the results the academic divisions expect to achieve for the resources they are allocated. The review and approval of these plans could provide the Board and senior management the opportunity to define their expectations and provide direction to the divisions. This two-way communication and agreement on the results to be achieved for the resources provided should form the basis of the “contract” which delegates operational authority to the academic divisions. Approved divisional plans could then form the framework for subsequent reporting of achievements to allow an assessment of divisional performance.

Divisional planning information is not presented to the Board and senior management in an integrated fashion

Currently, the divisions do not present to the Board and senior management an integrated business or strategic plan which incorporates all the operational and financial elements. For example, enrollment and KPI targets are presented by the corporate Institutional Research and Planning area rather than by the academic divisions, although the targets are set by the divisions.

Divisional reporting could be improved in several ways

Divisions present an annual report to the Board describing the activities of the preceding year. I believe the process of reporting to the Board and senior management could be improved in the following ways:

- Divisional reports should link actual results to expectations established in the planning process.
- The summary financial information presented in divisional reports should analyze actual revenues and costs by program compared with budget. Information such as tuition fee per enrolled student, cost per enrolled student, and cost per graduate would also be useful. Bringing financial information into the report and linking it to divisional achievements will improve decision making about tuition fees and resource allocation.

- Actual KPI results compared with targets should be presented. Having divisions directly responsible for KPIs under their control will promote accountability consistent with their authority.
- Timeliness of reporting could be improved. For example, the annual report of the Business division for the year ended June 30, 1995 was not presented to the Board until March, 1996. Such delays reduce the relevance of the reports.
- Senior management and the Board should establish guidelines outlining the basic elements of divisional reports.

Divisional Accountability

It is recommended that Grant MacEwan Community College place responsibility and authority for the full costs and revenues of its programs with the academic divisions to improve the cost-effectiveness of academic and support division services.

Full cost information is necessary to manage effectively

The College does not have accurate information on the full costs of its academic programs. Full costs are needed to determine the long-term viability of programs and to assess results in relation to costs. Full costs are also needed to set overall priorities, to identify those programs that are supporting others, to determine differential tuition fee structures for programs, and to comply with the Province's tuition fee policy.

Currently, some costs are not allocated

The College's systems currently provides information only on the direct costs of academic programs. It was noted that in determining the cost of the academic programs certain support division costs are not allocated.

Responsibility for costs will promote cost-effectiveness

Knowing full cost alone will not motivate managers to maximize cost-effectiveness unless the financial administration systems provide the appropriate incentives to promote this behaviour. Shifting greater responsibility and authority to the academic divisions for the full costs of academic programs will generate constructive debate on the costs and benefits of support division services.

Responsibility for revenues will promote business decisions on course offerings

Cost-effectiveness could be further improved by making the academic divisions responsible for tuition fee revenues, since it will require them to make business decisions about where, when and how to present courses and what fees to charge.

Support divisions must be able to demonstrate the cost-effectiveness of their services

I believe, over time, the efficiency, responsiveness and accountability of the support divisions should improve through demonstrating value-for-money in support service costs. In some instances, the academic divisions have chosen to provide certain support functions themselves, rather than use support division services. Decentralizing various aspects of support services will require careful analysis to prevent inefficient overlap or duplication of centrally-available services.

Northern Alberta Institute of Technology

Extension Services - Background

Extension Services activities constitute an increasingly significant proportion of NAIT's business

The Northern Alberta Institute of Technology (NAIT) trains approximately 45,000 students each year through courses offered by academic schools in business, computer systems, architectural and engineering technologies, environmental and laboratory technologies, health sciences, hospitality and applied arts. A significant component of NAIT's business is its Continuing and International Education activities. These activities, which in future will be known as Extension Services, generate about 14% of NAIT's revenues, and serve approximately 70% of the annual enrollment. Significant expansion of these activities is likely in the foreseeable future.

NAIT is involved in a number of significant initiatives to improve performance measurement and reporting

NAIT is currently involved in a number of significant initiatives intended to improve the way performance is measured and reported. These initiatives include the development of systems to support the Province's Key Performance Indicators reporting, and the costing of programs.

Extension Services

Recommendation No. 6

It is recommended that the Northern Alberta Institute of Technology include the setting of measurable expectations as part of the planning for Extension Services activities, so that achievements can be properly assessed.

Measurable expectations should be established for Extension Services

Setting specific performance expectations for Extension Services would benefit the management of this activity. Currently, the success of Extension Services is determined based on its net revenues, and the increase in the number of registered students that it is directly responsible for. Expectations derived from NAIT's goals would be useful in providing direction to Extension Services managers, and could form the basis for measuring results. These expectations could include the number of class or student contact hours, cost per student contact hour, and overall financial performance. Other expectations such as the level of student satisfaction, and the extent to which the needs of employers have been met, could also be defined in specific measurable terms.

Indicators currently being developed for external use could also be adopted for internal use

The current initiative to develop Key Performance Indicators for external reporting could be expanded to include the development of a few relevant and reliable indicators for internal use by management and the Board. This would assist management in assessing how various activities contribute to NAIT's overall goals.

All relevant costs must be included if an activity's performance is to be accurately assessed

Knowing the cost of programs or activities is critical when resources are limited. One of the more complex aspects of establishing costs is determining which costs are associated with specific decisions. The reported surpluses or deficits of an activity can vary significantly, depending upon which costs are included. For example, in 1994-95, Continuing Education reported a surplus of \$2.4 million. However, when direct instructional costs of \$1.2 million, and a portion of the overhead costs, allocated on a rational basis as determined by NAIT, were included, this activity reported a loss of \$2.7 million.

Relevant and reliable cost information is needed to set measurable expectations, to identify those programs that are supporting others, and to establish course tuition fees.

Allocating costs to Extension Services for its use of academic division resources, and for its share of central administrative costs, would ensure that decisions were based on the true cost of its achievements.



Guidance to reader

The Ministry of Agriculture, Food and Rural Development, which includes the Department and its agencies, supports the growth and development of the agriculture and food industry in its attempts to meet ever-changing market demands. Expenditures related to the Department's programs amounted to \$371 million in 1995-96. The North American Free Trade Agreement has enhanced access to international markets, and thereby created opportunities for growth. Products and assistance programs also need to meet the General Agreement on Tariffs and Trade (GATT) regulations, which require agricultural subsidies to be reduced. The new markets for products present opportunities and challenges.

The Farm Income Disaster Program, a new safety net program introduced during the year, is designed to support the Ministry's goal of strengthening the industry's ability to manage risk and uncertainty. The program provides protection to farmers who experience a disastrous drop in income, and replaces the Gross Revenue Insurance Plan. It is designed to meet GATT requirements by reducing subsidies that create trade barriers in world markets. The Agriculture Financial Services Corporation administers this program in conjunction with other financial and risk management services, including crop insurance and lending.

Disaster recovery programs are also an integral part of the agriculture business. In June 1995, a major flood in southern Alberta resulted in significant damage to agricultural operations. Although the Department of Transportation and Utilities assumed overall responsibility for the Southern Alberta Disaster Recovery Program (SADRP), the Department of Agriculture, Food and Rural Development administered the agricultural component of the Program. My staff examined the systems used by the Department to assess damages and process compensation payments for the damage sustained by agricultural operations, and suggested systems changes in the determination of applicant eligibility and the assessment of damages.

The Ministry has taken action to improve the efficiency of its business practices. For example, it has consolidated its field office services into fewer locations to provide farmers with one-stop access to insurance, lending and departmental services. A new Point of Sales Transaction (POST) system for crop insurance also enables staff in field offices to improve service delivery.

As business processes are streamlined and decentralized, the Ministry needs to ensure that appropriate financial controls are maintained. An examination of the Agriculture Financial Services Corporation's operations indicated that controls over the monitoring of Agribusiness loans and the implementation of insurance program changes could be improved. My staff also observed that, with the privatization of the operation of grazing reserves currently administered through the Department's Revolving Fund, savings in accounting and administration could be achieved if public land operations reverted back to the Department.

To gauge its success in adapting to changes in the agriculture and food industry, the Ministry has identified performance measures, and has also worked to redefine its mission and goals. My staff have reviewed the initiatives underway and provided suggestions on how the performance measures could be further improved. I expect ongoing communication between my staff and the Ministry to promote further progress in this area.

Department of Agriculture, Food and Rural Development year ended March 31, 1996

Scope of audit work

In addition to the annual financial audit, my staff completed an examination of the systems used to administer the agricultural component of the Southern Alberta Disaster Recovery Program (SADRP). The examination was designed to suggest improvements in the administration of future disaster programs.

Southern Alberta Disaster Recovery Program (SADRP)

At the conclusion of the examination of SADR, it was recommended that the Department of Agriculture, Food and Rural Development, prior to issuing initial benefit payments, obtain sufficient information to support the assessment of damages incurred, and to support the eligibility of applicants for disaster recovery program benefits.

Applicant eligibility and damage assessment need to be determined quickly

The objective of disaster programs such as SADRP is to assist applicants to restore their livelihoods as quickly as possible. Applicant eligibility needs to be verified, and appropriate benefits paid based on established criteria. An assessment of the damage by an appraiser immediately following a disaster is critical in determining the reasonableness and completeness of program benefits to be paid.

Eligibility of applicants should be determined before any payments are made

Key information regarding applicant eligibility and the assessment of damages needs to be obtained prior to making initial benefit payments to applicants. Savings in terms of reduced appraiser time would result if ineligible applicants were identified before damage assessments are done. Under SADRP, a key criterion for assistance is that the source of income for applicants has to be primarily from farming operations. A sample of claim files revealed that eligibility was often not determined until after initial benefits had been paid out. The Department has since had to request refunds from applicants who received payments but were subsequently determined to be ineligible.

Initial assessments should provide more complete information, as this could result in further savings

The Department could realize further savings if the appraiser's initial assessment included adequate details of the damages sustained. The time and cost of performing follow-up appraisals, requesting refunds and resolving disputes would be minimized. A sample of claim files revealed that some initial assessments lacked sufficient detail to support the amounts claimed. For example, in some instances the number of hay bales lost, or the measurements of grain destroyed, were not recorded by the appraiser. In other instances, significant variances between the amounts claimed by the applicant and the amounts assessed by the appraiser were not explained.

In response to the issues raised during the examination, the Department agreed with the audit observations and indicated that it has made improvements to SADRP and also implemented revisions to the subsequent disaster recovery program in the Lesser Slave Lake region.

Safety net program criteria

Criteria for the whole farm safety net program should be used to evaluate similar programs

In the 1994-95 annual report (page 79), it was recommended that the Department use the criteria developed for the Province's new whole farm safety net program to assess the appropriateness and effects of other farm income support programs. This recommendation was based on observations that the criteria developed to identify the critical aspects of a comprehensive safety net program could also be used to evaluate the need for any support programs that remain after the implementation of the whole farm program and for any programs that might be considered in the future.

The recommendation was accepted

This recommendation was accepted by the Department. The criteria will be used to evaluate the Farm Income Disaster Program. Implementation of this recommendation is likely to take place over a number of years as the Farm Income Disaster Program was introduced during 1995-96. My staff will continue to monitor the progress made to address this recommendation.

Agriculture Financial Services Corporation

year ended March 31, 1996

Implementation of insurance program changes

A program change included provisions for premiums to be refunded in certain circumstances

It is recommended that the Agriculture Financial Services Corporation improve the implementation of insurance program changes.

During the year, the Corporation re-introduced hail endorsement as part of the crop insurance program. Premiums for hail endorsement, which during 1995-96 amounted to \$24.5 million, are calculated and shown on the premium statement. When the Corporation authorizes reseeding of crops due to poor germination, drought or frost, revised premium statements are issued and producers become eligible for reseeding benefits. When crops are reseeded to crops that were not elected for insurance coverage, it is the Corporation's policy to refund the hail endorsement premium.

*Premium adjustments
were made incorrectly in
some instances*

A sample of crop insurance premiums examined during the audit indicated that the Corporation had incorrectly adjusted premium revenue in most instances where producers had elected the hail endorsement and had reseeded insured acres to crops that were not elected for insurance coverage. The hail endorsement premium was refunded twice; once when the reseeding benefits were paid, and again as a reduction in premiums.

*The risk of such errors
occurring could be
minimized*

During the implementation of insurance program changes, the Corporation could minimize the risk of such errors occurring through increased clerical or computer verification, and staff training.

Amendments to legislation

Recommendation No. 7

It is recommended that the Agriculture Financial Services Corporation obtain legislative amendments before implementing changes in its operating policies that are otherwise inconsistent with legislation.

*The Corporation
implemented a change in
the harvesting allowance
without obtaining the
necessary legislative
amendment*

Before the 1995 crop year, the Corporation provided a harvesting allowance to producers, as required by Sections 33 and 34 of the Agriculture Financial Services Regulation. The allowance was intended as compensation for the disproportionate harvesting costs for low-yielding crops, whether or not the crops were actually harvested. In September 1994, without requesting a change to the Regulation, the Corporation changed its operating policy, effective with the 1995 crop year, to provide the harvesting allowance only if the crops had actually been harvested. Although the new policy was communicated to producers in December 1994, legislative approval was not obtained until May 1996.

Other instances of non-compliance were noted in prior years

I support the Corporation in its efforts to adjust operating policies to reflect appropriate business practices. However, the Corporation should take steps to ensure that the regulatory changes needed to authorize such adjustments are obtained in a timely manner. In 1991-92, 1992-93, and 1993-94, my staff noted instances of non-compliance with federal/provincial agreements and inconsistencies in contract interpretation. In each case, the Corporation resolved the specific concerns raised by obtaining appropriate amendments. It appears that the Corporation's process for implementing changes in operational policies needs to be reviewed.

Monitoring of Agribusiness loans

It is recommended that the Agriculture Financial Services Corporation improve the monitoring of Agribusiness loans to ensure that impaired loans are adjusted to their estimated realizable amounts on a timely basis.

Timely recording of impairment is important

A risk associated with lending is that some loans will become impaired, and the amounts ultimately collected will be less than the recorded value of the loans. One of the primary performance indicators of a loan portfolio is the amount or percentage of impairment. Appropriate monitoring of loans and timely recognition of impairment ensures that losses on loan accounts are identified and recorded promptly.

In some instances, loan impairment was not recorded

The total Agribusiness loan portfolio of the Corporation at March 31, 1996, amounted to \$45 million. My staff examined a sample of files in the portfolio, and noted that borrowers with loans and guarantees totalling approximately \$631,000, had had indications of impairment for over a year. Although the Corporation was aware that the loans were in arrears and exceeded the value of security provided, the amount of impairment had not been recorded. The Corporation subsequently reduced the carrying amounts of the loans in its March 31, 1996 financial statements to their estimated realizable amounts.

**Verification of insurance
information**

It was recommended last year that risk-based techniques be used to identify information requiring verification

The recommendation was accepted

In the 1994-95 annual report (page 80), it was recommended that the Corporation use risk-based techniques to identify which information obtained to determine insurance coverage, premiums and claims needs to be verified. This recommendation was based on observations that the Corporation did not identify situations where conflicting or inaccurate information resulted in incorrect crop insurance coverage and premium revenue.

The Corporation has accepted this recommendation and is developing various risk assessment models. It has also initiated other projects to review the procedures used to verify the reliability of information provided. My staff will continue to monitor the progress of these initiatives.

Agriculture, Food and Rural Development Revolving Fund

year ended March 31, 1996

Existence of the Revolving Fund

The Revolving Fund manages public lands including grazing reserves

The Revolving Fund's operations will decrease when grazing reserves are privatized

Public land operations should revert back to the Department

It is recommended that the Department of Agriculture, Food and Rural Development consider whether the existence of its revolving fund continues to be justified.

The principal purpose of the Agriculture, Food and Rural Development Revolving Fund, which commenced operations on April 1, 1995, is to manage public lands, including grazing reserves. Grazing reserve management accounts for approximately 40% of the Revolving Fund's revenues and expenses. The Revolving Fund provides a mechanism to collect advance payments for grazing reserve application and maintenance fees, and to defer the recognition of the fees as revenue until future periods.

The Department's business plan for 1996-97 to 1998-99 includes action to privatize part of provincial grazing reserve operations. As grazing reserve management is privatized, and fewer application and maintenance fees are collected, the Revolving Fund's operations will decrease significantly.

Where this happens, there will be no apparent advantage to delivering public lands management outside of the Department. With the privatization of grazing reserve management, it may be appropriate for the remainder of public lands management to revert to the Department, thereby achieving accounting and administrative savings.

The Department has responded that as grazing reserves are privatized over the next three or four years, the need for the Revolving Fund will be reconsidered.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1996:

Alberta Agricultural Research Institute
Alberta Dairy Control Board

Guidance to reader

The Ministry's purpose is to support community development and to help all Albertans participate fully in the social, cultural and economic life of the Province.

The Ministry delivers its programs and services with the assistance of several commissions, funds and foundations. The programs provide support for cultural and recreational activities, including: the funding of libraries and the operation of several museums; the provision of the Alberta Seniors Benefit; the review and coordination of government policies and programs affecting women; the investigation and adjudication of human rights issues; multiculturalism; and the restoration and conservation of historical resources.

In 1995-96, the Department's expenditures amounted to approximately \$197 million. Also, in the same period, several funds and foundations received grants from the Lottery Fund, amounting to approximately \$40 million. At March 31, 1996, the Ministry had approximately 730 full-time equivalent employees.

As almost 75% (approximately \$147 million) of the Department's expenses are used to provide benefits to seniors, the Department needs to ensure that the Alberta Seniors Benefit program is delivered efficiently and effectively.

On April 1, 1996, Glenbow-Alberta Institute was dissociated from the Ministry. The equity at dissociation was \$22.4 million. This does not include the value of Glenbow-Alberta Institute's collection, the ownership of which was transferred to the Government of Alberta on April 1, 1996. However, Glenbow-Alberta Institute will continue to be responsible for caring for the collection and for providing public access to it.

After the end of the year, the Alberta Alcohol and Drug Abuse Commission and The Wild Rose Foundation became part of this Ministry. The Commission was mainly funded by the Department of Health, and The Wild Rose Foundation by the Lottery Fund.

Department of Community Development

year ended March 31, 1996

Scope of work

In addition to the annual financial audit, an examination was completed of the Alberta Seniors Benefit program.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1996:

Alberta Alcohol and Drug Abuse Commission, including
the audit of the 1994-95 Drug Treatment and
Rehabilitation cost-sharing claim with the federal
government

Alberta Foundation for the Arts

The Alberta Historical Resources Foundation

Alberta Multiculturalism Fund

**Alberta Sport, Recreation, Parks and Wildlife
Foundation**

Community Development Revolving Fund

Glenbow-Alberta Institute

The Government House Foundation

Historic Resources Fund

The Wild Rose Foundation

Recommendation No. 8

Not used



Guidance to reader

The mandate of the Ministry of Economic Development and Tourism is to strengthen Alberta's competitiveness in world markets, and, in partnership with the business community and the Alberta Economic Development Authority, develop, coordinate and implement the government's economic strategy.

The Ministry delivers its programs through the Department and its agencies. The Department's total expenditures in 1995-96 amounted to \$94 million.

The Ministry has developed goals, strategies and performance measures to monitor progress in achieving results. My staff will continue to work with the Ministry to identify potential enhancements in performance reporting.

Effective July 15, 1996, the Alberta Liquor Control Board was merged with Alberta Lotteries, Lottery Fund management, the Alberta Gaming Commission and the Gaming Control Branch and was continued as a corporation called the Alberta Gaming and Liquor Commission. The Gaming and Liquor Act replaced the Interprovincial Lottery Act and the Liquor Control Act. Prior to the formation of the Commission, Alberta Lotteries, the Alberta Gaming Commission and the Alberta Liquor Control Board were separate legal entities.

During the year, the Alberta Motion Picture Development Corporation moved towards ceasing operations, and the Tourism Education Council ceased operating as a government agency and became a non-profit corporation.

**Department of Economic Development and Tourism
year ended March 31, 1996****Controls over Electronic
Funds Transfers**

It is recommended that the Department of Economic Development and Tourism improve the control systems used to prevent and detect errors that can occur when transferring funds electronically.

Departments have had the ability for some time to electronically transfer funds to vendors who supply services to them.

A payment made in error was fully recovered, but this demonstrates that errors could occur in the system

The Department inadvertently made a transfer of \$2.6 million to the wrong vendor. The funds were fully recovered shortly after the transaction was made. However, the transaction did demonstrate that errors could occur in the existing system.

As the electronic funds transfer system relies on the accuracy of data keyed in by staff, safeguards could be built into the computer payment system which would identify errors before payments are processed

The error occurred as a result of the same bank account number being recorded in the accounts payable system for two different vendors. The control system could be improved to prevent such an error from occurring in future. For example, the supervisor who checks the accuracy of the vendor information that is input to the system could also be required to re-enter the vendor's bank account number and let the computerized payment system match the two bank account numbers prior to authorization. In addition, the system could be modified to flag instances where more than one vendor has the same bank account number. Finally, dollar limits could be set, transfers above which would require additional approval.

New software presently being introduced in Departments should address risks

Many departments are presently introducing new software for processing their payments. I believe the new systems should take these concerns into account in order to ensure safeguards over all electronic transfers.

Alberta Heritage Foundation for Medical Research year ended March 31, 1996

Non-compliance with legislation

Recommendation No. 9

It is recommended that the Alberta Heritage Foundation for Medical Research request from the Lieutenant Governor in Council a retroactive exemption from section 80.1 of the Financial Administration Act respecting the incorporation of its subsidiary, the Alberta Foundation for Health Research, or alternatively, discontinue and wind-up the operations of the subsidiary.

The Alberta Foundation for Health Research (AFHR) was incorporated as a subsidiary of the Alberta Heritage Foundation for Medical Research

The Alberta Foundation for Health Research (AFHR) was incorporated as a not-for-profit company under the Companies Act on November 17, 1994. AFHR was established to receive charitable donations and make gifts to various organizations for the advancement of medical and health research and related educational activities. The Articles of Association of AFHR specify that the President, Chairperson and Vice Chairperson of the Alberta Heritage Foundation for Medical Research (the Foundation) together control AFHR. The Articles also require the Foundation to approve all nominees for election to AFHR's Board of Directors, and at least four of the seven AFHR directors to be the Foundation's President, Chairperson and at least two other Trustees.

The incorporation of AFHR required the approval of the Lieutenant Governor in Council

My legal counsel has concluded that AFHR is controlled by, and is a subsidiary of, the Foundation. Therefore, AFHR is a Provincial corporation subject to the Financial Administration Act. However, the approval of the Lieutenant Governor in Council under section 80.1(1) of the Financial Administration Act is required before a subsidiary of this nature can be incorporated. Such approval was not obtained. The consequence of this is that the incorporation of AFHR was without legislative authority and may in fact be void.

The Lieutenant Governor in Council may retroactively exempt the Foundation from section 80.1 of the Financial Administration Act

The Lieutenant Governor in Council, on the recommendation of the Provincial Treasurer, may exempt the Foundation from section 80.1 of the Financial Administration Act. Under section 2 of the Financial Administration Act, the exemption could be made to apply retroactively respecting the incorporation of AFHR on November 17, 1994. This would allow AFHR to continue to operate. In the absence of such an exemption, the Foundation should discontinue and wind-up the operations of AFHR.

The Foundation's Trustees will seek retroactive approval to legitimize AFHR

These observations and the opinion of my legal counsel have been discussed with management who have since advised me that the Foundation's Board of Trustees will seek retroactive approval for the formation of AFHR.

Alberta Tourism Education Council
year ended March 31, 1996**Compliance with legislation**

Last year, my auditor's report reflected that Council had acted outside of its legislated activities

In the 1994-95 annual report (page 89), it was recommended that the Alberta Tourism Education Council restrict its operations to programs and activities that relate to the tourism and hospitality industries as required by legislation, or seek amendments to its legislation to broaden the scope of the Council's programs and activities. I had observed that during 1994-95 the Council had financed the provision of services to, and received revenue from, two organizations outside the tourism and hospitality industries. I also drew attention to this matter in my auditor's report on the financial statements.

The council continued to provide services outside of its legislated activities

The Council continued to provide similar services in the year ended March 31, 1996. Consequently, I again drew attention to this non-compliance with legislation in my auditor's report on the Council's financial statements for the year ended March 31, 1996.

Legislation to repeal the Tourism Education Council Act has been passed

As legislation to repeal the Tourism Education Council Act has been passed, and the operations of the Council have been privatized, I made no further recommendation.

Alberta Research Council
year ended March 31, 1996**Royalty and license fee revenue management system**

In accordance with a recommendation made last year, a royalty and management system has been developed

In the 1994-95 annual report (page 90), it was recommended that the Alberta Research Council develop a system that assists the timely collection of royalties and license fees. I am pleased to report that a royalty management system has been developed and that details of significant royalties and license fees agreements have been recorded on this system. I will continue to monitor progress.

Alberta Lotteries
year ended March 31, 1996**Scope of audit work**

In addition to the annual financial audit, my staff conducted an examination of the management and financial controls in place to administer video lottery operations. No matters of significance were reported to management.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1996:

Alberta Liquor Control Board
Alberta Motion Picture Development Corporation
Alberta Opportunity Company
Alberta Racing Commission
Economic Development and Tourism Revolving Fund
Chembiomed Ltd. and,
Alberta Intermodal Services Ltd. for the year ended
December 31, 1995

Guidance to reader

The mandate of the education system in Alberta is to ensure that all students have the opportunity to acquire the knowledge, skills and attitudes needed to be self-reliant, responsible, caring and contributing members of society.

Education is delivered primarily through a network of schools within publicly funded school jurisdictions. Authority over these jurisdictions is given to publicly elected school boards. Schools are responsible for providing instructional programs that enable students to meet Provincial graduation requirements and prepare them for entry into the workplace or post-secondary studies. The Department of Education is responsible for: ensuring that high standards are established and communicated; developing and implementing legislation, policies and long-range plans; providing funding to school jurisdictions on a fair and equitable basis and controlling the cost of education; and assessing and reporting to government and the public on student achievement and the performance and cost of the education system. The Department's 1995-96 operating budget was \$1.5 billion, of which \$1.4 billion was for financial assistance to schools to supplement the \$1.2 billion raised from property assessments.

The education system has undergone significant changes in the last year. A new funding model has been established. Funds for instruction are allocated based on the number of eligible students, and there is a restriction on the amount that can be spent on school board governance and system administration.

An accountability framework, which requires school boards to prepare and submit plans and reports to the Department of Education annually, was also implemented. To ensure alignment with key Provincial direction, school boards are required to include Provincially mandated goals, strategies and measures for school boards and schools. In addition, school boards are now required to report financial information in accordance with generally accepted accounting principles. A member of my staff and I participated in the Institute of Chartered Accountants of Alberta Task Force on School Board Reporting in Alberta, which developed guidance and prototype financial statements for use by school boards.

To achieve the mandate of the education system, the Department of Education has identified the following four key goals in its three-year business plan:

- high learning standards and quality programs,
- parental support,
- community support and services, and
- excellent teaching.

The recommendations that follow relate to the systems the Department of Education has in place to promote the achievement of high learning standards.

Department of Education year ended March 31, 1996

Local target setting

Provincial standards of acceptable and excellent results for Provincially-administered examinations have been established

School boards are not required to include local targets in their three year plans

It is recommended that the Department of Education require school boards to set local targets for academic achievement on Provincially administered examinations and incorporate these targets into an overall plan for the Province.

The Department has established Provincial standards for acceptable and excellent performance in Provincially administered examinations. For Provincial achievement tests and diploma examinations, the achievement standard is that 85% of all students will attain the acceptable standard, of which 15% will attain the excellent standard. Every school board is expected to achieve Provincial standards.

Currently, school boards submit to the Department three-year plans and annual results reports. The annual results reports include information on the percentage of students who achieve the excellent and acceptable standards on Provincial achievement tests and diploma examinations. School boards, however, are not required to include local targets in their three-year plans, either for themselves or for the schools they administer. As a result, it is difficult for the Department to determine how the expected results and strategies of individual schools and school boards will contribute to the Province-wide achievement of Provincial standards.

Local targets for Provincial examinations would encourage individual school boards to achieve better results

To encourage schools and school boards to strive for achievable improvements, the Department should work with individual school boards to set local targets for Provincially administered examinations. Local targets would foster a sense of commitment by the boards as the targets would be based on local factors. In this way, schools and boards that historically have performed well below Provincial standards and which cannot expect to achieve those standards immediately, will be able to move towards achieving Provincial standards over time. Local targets would also encourage schools and boards, which consistently perform above Provincial standards, to strive for even better results.

School board targets should be integrated into the Department's plan

Provincial targets should be based on an accumulation of the targets of individual school boards. This will enable the Department to ensure that a strategy is in place Province-wide to attain the achievement standard over a realistic period of time.

Analysis of Provincial academic achievement

It is recommended that the Department of Education identify groups of similar types of schools and similar types of programs or instruction methods to compare results, set targets, and identify factors for success which can be used to improve academic achievement Province-wide.

Monitoring of academic results could be improved

The Department monitors the performance of schools whose academic results are significantly above or below Provincial standards. By communicating the information obtained, the Department helps the less successful to learn from the methods of the more successful. It might be more useful, however, to analyze and compare academic results by grouping together similar types of schools, programs, or instruction methods. Factors which contribute to academic success in some schools may not be relevant to other schools, which may have problems such as low attendance to overcome.

Academic results should be grouped by similar schools

Comparing the results achieved by schools having similar attributes could enable the Department to identify schools where significant improvements have been made, and determine what factors contributed to those improvements. The information could be used by schools in setting local targets, and to foster improvement across the Province on a systematic basis.

Academic results grouped by type of program or instruction could be used to identify factors used to improve results on a Province-wide basis

The Department should also consider monitoring specific types of programs or instruction methods to identify factors which could be used to improve results on a Province-wide basis. The Department provides schools with data on school and Provincial results, including a breakdown of students in a particular program or who receive a certain type of instruction. This data could be used by the Department to determine anomalies across the Province and to identify opportunities for improvement.

Assessment of Provincial learning expectations

It is recommended that the Department of Education require school boards to assess and report on the achievement of those Provincial learning expectations that are not assessed by Provincially administered examinations.

The Department's three year business plan outlines Provincial learning expectations; however, the Department does not ensure that all of these expectations are assessed on a Province-wide basis

The Department's three-year business plan "*Meeting the Challenge III*" outlines Provincial learning expectations. These expectations require, for example, that students be able to read and write, use mathematics to solve problems, know how to work independently and as part of a team, respect the cultural diversity of others, and demonstrate initiative, leadership, flexibility and persistence. Although the Department directly assesses the achievement of some of these learning expectations, it does not ensure that all Provincial learning expectations are assessed on a Province-wide basis.

It is not considered cost beneficial for the Department to administer performance tasks on a Province-wide basis

Some learning expectations are assessed directly through Provincially-administered examinations and performance tasks. The examinations, which are mainly paper-and-pencil, time-limited tests, address learning expectations such as reading, writing, science and mathematics. The Department also assesses certain other learning expectations, such as group participation and decision-making, on a sample basis through "performance tasks" which students are required to perform. However, the Department believes that the Province-wide administration of performance tasks would not be cost-beneficial. Consequently, not all students in the Province are assessed consistently on these learning expectations.

School boards should perform self-assessments and report to the Department on Provincial learning expectations not directly assessed by the Department

Other learning expectations for students, such as respect for cultural diversity and the importance of accepting responsibility for their well-being, are not assessed Provincially at all. These types of learning expectations may only be assessable through observation in the classroom. Although classroom assessments may be taking place, the Department neither monitors this activity nor accumulates information about the results obtained. For these learning expectations, the Department should require the school boards to report on how they assess the expectations, what results are achieved and any action required to improve results.

Costs of education

In my 1994-95 annual report (page 94), I stated that school boards' financial statements do not include amortization of capital assets, and that some boards accrue costs for goods ordered but not yet received.

School boards are now required to report financial information in accordance with generally accepted accounting principles

I am pleased to report that school boards are now required to report financial information in accordance with generally accepted accounting principles. Guidance and prototype financial statements were recently developed by the Institute of Chartered Accountants of Alberta Task Force on School Board Reporting in Alberta, on which a member of my staff and I served.

Cost presentation

Recommendation No. 10

It is recommended that the Department of Education require school boards to include performance information on the various instructional programs in their annual education results reports, and to include information in their financial statements that links costs with performance.

I reported last year that reporting by school boards does not enable a comparison of the costs incurred to the achievement of certain educational objectives

In my 1994-95 annual report (pages 94 and 95), I stated that the current presentation of the financial results of school boards does not enable a comparison of the costs incurred to the achievement of certain educational objectives, including those for special needs programs. Although I am pleased to report that school boards are now required to report on special education programs and the number of students who are classified as severely disabled, the school boards are not required to provide information that links costs with performance.

School boards do not have a reliable methodology for allocating costs to different types of instruction

The Institute of Chartered Accountants of Alberta Task Force on School Board Reporting in Alberta recommended that, for the 1996-97 school year, school boards include in their financial statements information on instruction costs for programs such as English as a second language, enhanced opportunities and instruction to the severely disabled. However, the school boards have no reliable methodology in place for an appropriate allocation of all types of costs. As a result, allocations may be arbitrary.

The costs associated with academic performance should be reported

School boards should continue to improve their reporting on the performance of various instructional programs. The boards should also continue to work towards developing appropriate cost allocation methods so that the costs associated with achieving results, such as the average cost of a student successfully completing the English as a second language program, can also be reported accurately.

Alberta School Foundation Fund year ended March 31, 1996

Advances from the General Revenue Fund

It is recommended that the Department of Education reconsider the appropriateness of the Alberta School Foundation Fund borrowing funds interest-free from the General Revenue Fund, and seek clarification of its legislative authority to make payments from the Fund other than to school boards.

Under the present legislative arrangement, the Fund must pay out monies before it receives them

Each quarter, the Fund receives the school taxes collected by municipalities, from which it makes payments to school boards. Until recently, these monies were received from municipalities during the middle of the third month of each quarter, which allowed a week to ten days before payments had to be made to school boards. During 1995-96, however, to accommodate their cash flow needs, the municipalities obtained approval to delay remitting their requisition revenues to the Fund until the end of each quarter. As payments to the school boards must be made three banking days before the end of the quarter, the Fund inevitably faces a cash shortage at that time.

The Fund borrows interest-free from the General Revenue Fund

To finance these cash shortages, the Fund borrows approximately \$200 million each quarter from the Province's General Revenue Fund. The General Revenue Fund is not charging interest on these advances, which are repaid when the Fund receives the tax revenues from the municipalities.

There are apparent inconsistencies within the School Act

The situation described above raises two issues. Firstly, by providing interest-free advances, the General Revenue Fund is indirectly providing an additional subsidy to the school boards, a subsidy that does not appear to be contemplated in legislation. It also allows the Fund to earn interest on revenues that accumulate before the borrowings are repaid. The second issue of concern arises because section 159.2(2) of the School Act charges the Alberta School Foundation Fund Audit Board with ensuring that money in the Fund is paid only to school boards. Yet payments are being made other than to school boards, and legislative provisions appear to allow for still more payments. For example, repayments of borrowings from the General Revenue Fund are not payments to school boards. Furthermore, section 158(8) of the School Act allows the Fund to repay municipalities if for certain reasons they have overremitted to the Fund. And finally of perhaps greatest concern, Treasury Board Directive 11/94 requires interest at 1% per month to be charged on advances to the Fund from the General Revenue Fund, though at the present time the General Revenue Fund is not charging this interest and the Fund is not paying it. The Department has communicated to me that it has initiated discussions with the Treasury Department to obtain exemption from paying interest on advances from the General Revenue Fund.

Amendments to the School Act may be necessary

It would appear prudent for the Department to seek legislative changes to clarify the uncertainties described above.

Audit Board

It is recommended that the role and responsibilities of the Alberta School Foundation Fund Audit Board be clarified so as to avoid duplicating the expenditure safeguards of the Financial Administration Act and the functions of the Auditor General.

I reported last year that the School Act was unclear on how the Audit Board would carry out its mandate

In my 1994-95 annual report (page 96), I stated that it is unclear from the School Act how the Alberta School Foundation Fund Audit Board (the Audit Board) will carry out its mandate, and further, whether it is intended to discharge a management role or an audit role.

The School Act states that “The Alberta School Foundation Fund Audit Board shall ensure that money in the Alberta School Foundation Fund is paid only to boards.” As

explained above in the section titled Advances from the General Revenue Fund, this duty conflicts with other sections of the School Act. Furthermore, the Audit Board could only *ensure* how money is paid if it performed a management function, which it is not empowered to do.

My Office issued an audit opinion on legislative compliance for the year ended March 31, 1996

To provide the Audit Board with assurance that money in the Fund had been paid only to school boards, for the year ended March 31, 1996, I was engaged by the Minister of Education to provide an audit opinion on legislative compliance. As a consequence, my staff performed audit procedures in addition to those required to provide an opinion on the general purpose financial statements of the Fund.

The role of the Audit Board should be clarified

This additional audit work would not be required if the role of the Audit Board was changed. In my opinion, the Audit Board could better serve the interest of school boards, taxpayers and the Legislature if its objectives were more in line with those of an audit committee. It could then carry out such functions as reviewing with management the adequacy of internal controls and meeting with the auditor to enquire as to the audit approach and any concerns that have resulted from the audit.

Amendments to legislation have been requested

I understand the Chairman of the Audit Board has requested that the Minister amend the legislation to clarify the Audit Board's role. I will be pleased to review the proposed amendments to ensure they address my concerns.

Other entities

Financial audits of the following were also completed:

Education Revolving Fund - year ended March 31, 1996

Northland School Division No. 61 - year ended
August 31, 1995

Teachers' Retirement Fund - year ended August 31, 1995

Guidance to reader

The Ministry of Energy comprises two organizations, the Department of Energy and the Alberta Energy and Utilities Board.

The Department of Energy develops, implements, and administers policies related to the energy sector which includes the hydrocarbon, electric, and other mineral industries. In this capacity, the Department advocates the orderly exploitation of Provincial resources by the private sector. Accordingly, the Department has defined its five core businesses as:

- disposition of energy and mineral resources,
- collection of the crown's energy and mineral revenue,
- policy analysis and advice,
- energy research, and
- external relations.

For 1995-96, the Department collected \$3.2 billion in government revenues, and its expenditures were \$87 million; its full time manpower complement was 550 during the year.

The Alberta Energy and Utilities Board plays a conservation and protection role, regulating the industries mentioned above. The Board's four core businesses are:

- application processing,
- regulatory requirements,
- information/knowledge, and
- surveillance.

The Board's 1995-96 expenditures were \$58 million; its full time manpower complement was 635.

Historically, the energy sector in Alberta has operated in a highly regulated environment. Over time, complex rules and regulations have evolved to monitor industry and protect the Province's interests. The government has begun to streamline the energy environment through deregulation, simplification, and reduction of administrative costs. These initiatives present new risks as the Ministry maintains service to its clients while redesigning its business rules and practices, all in an environment of cost reduction.

My Office supports the Ministry in its adaptation to its new environment in two ways. First, we provide advice on the Ministry's strategic initiatives. These initiatives define the overall direction in which the Ministry intends to head. The performance measurement work described later in this chapter is an example of such advice. Second, we examine and, where appropriate, advise the Ministry on areas where improvements to operational systems are desirable. Our work on the Mineral Revenues Information System, financial reporting processes, and Deep Gas Royalty Holiday procedures are examples.

Department of Energy year ended March 31, 1996

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- My staff examined the Performance Measurement initiatives within the Ministry. Related to this examination, and at the invitation of the Department, my staff will participate in the Performance Measurement and Reporting Project.
- At the request of the Deputy Minister of Energy, I carried out certain assurance, review and enquiry procedures so as to enable me to report on the financial statements of the *Province of Alberta Investment in the Syncrude Project* which were included in an offering prospectus for trust units relating to the Syncrude Project.
- At the request of the Department, my staff reviewed the policies and procedures in place to process applications to the Deep Gas Royalty Holiday program.

**Mineral Revenues
Information Systems (MRIS)**

Last year's Report described the planning and management deficiencies which resulted in rising costs, development delays, and the Department's inability to deliver gas royalty invoices

Two recommendations were made last year to address these concerns

MRIS Project management and control have improved, but problems remain

In my 1994-95 Annual Report (page 101), I discussed the Department's MRIS Project. This Project was intended to simplify the Department's royalty and tax business and replace the existing Mineral Revenues System. Original estimates were that the entire Project would cost \$20 million; the first component to be simplified would be Gas Royalty, featuring a mid-1994 implementation date. Last year's Report described the planning and management deficiencies which resulted in rising costs, development delays, and the Department's inability to deliver gas royalty invoices. At that time, the Department estimated that the gas royalty portion of the MRIS Project would, on a best case scenario, be operational and up-to-date by July 1996 at a total cost of \$32 million. The Department's original plans to simplify the remaining royalty and tax regimes were essentially on hold until the gas royalty situation could be resolved.

In last year's Report (page 101), it was recommended that the Department periodically reassess the risks associated with continuing the development and implementation of the Mineral Revenues Information System, and the Department determine the extent to which it has achieved the intended royalty simplification initiatives, and complete its planning for further royalty simplification efforts.

This year, I re-examined MRIS development with a view to gauging progress in implementing last year's recommendations.

Regarding the first recommendation, the Department has reviewed the MRIS Project several times over the past year. These include external consultants' reviews, monthly quality assurance reviews, and regular senior management and executive reviews. These reviews reflect a continuing improvement in project management and control through the period. In addition, gas royalty invoices have been produced by MRIS; at this time, invoices for the twelve production months of January through December 1994 have been issued to all royalty payors. Improved project management has reduced the risk of overall project failure but has not entirely eliminated the risks identified in last year's Auditor General's Report. Serious problems have been encountered over the past year and critical issues still need to be monitored.

The Department ran out of money in its capital budget to pay for MRIS development during the year, and this affected the Department's operating objectives in other business areas

The Department developed the 1995-96 MRIS capital expenditure budget in late 1994 and early 1995. At that time, the Department's plan and budget for the project was not adequate. At the time of preparing the first quarter update to Treasury Board in 1995-96, the Department advised that it had a capital spending problem. The Department indicated that it would provide a more precise estimate of the problem as the year progressed. By the start of the final quarter of fiscal year 1995-96, the Department had effectively exhausted its capital appropriation and, in order to continue to support the project, paid for capital activities out of its operating appropriation.

Charging capital expenditures as operating expenditures during the year represents non-compliance with the Appropriation Act and the Financial Administration Act. At the end of March 1996, the Legislature transferred \$3 million from the Department's operating to its capital expenditure votes and approved \$2.7 million for additional capital expenditure. These supplemental estimates corrected the Department's budget balances for the year. However, the money that had already been spent within the MRIS Project drained operating funds and affected the Department's operating objectives in other business areas. Budgets for 1996-97 are more realistic and, to date, capital expenditures appear to be on target (*see the discussion under "Effective expenditure management" on page 187 for further details*).

The project is now meeting milestones more frequently, however technical problems still need to be resolved

The project is now meeting milestones more frequently. However, identifying and acquiring adequate resources for testing new releases of the software is still a critical issue for the project. Technical problems still need to be resolved. For example, programs take 30 days to run one month's data and inquiry response times are lengthy. This level of performance does not meet the needs of the ongoing business. The Department has recently committed to industry to finalize the 1994 and 1995 gas royalty business years by January 1997. This places another deadline before the Project which will have to be carefully monitored for slippage and impact on other Department activities. While these problems have been documented and are being addressed by the Project team, outstanding issues such as these indicate that risks still exist.

The Department has begun to monitor the extent of achievement of its gas royalty simplification initiative

Regarding last year's second recommendation, the Department has begun to monitor the extent of achievement of its gas royalty simplification initiative. The gas royalty staff regularly communicate with industry, and monitor companies' satisfaction with and concerns about the royalty regime. However, a balanced assessment of the effectiveness of gas royalty simplification will not be possible until gas invoices are up-to-date and both industry and government evaluate the new gas royalty regime as it would normally operate. The second recommendation also addressed the issue of planning for future simplification efforts. The Department has begun the process of strategic planning, a process which should lay the foundation for future simplification efforts. These initiatives show promise in their early stages and, as mentioned earlier, I look forward to assisting the Department.

Although royalty simplification and MRIS development are better controlled now than they were a year ago, risks still remain

The Department's improved understanding of the progress of the MRIS Project has meant improved estimates of the duration and overall cost of the Project. At this writing, MRIS is expected to be fully operational and invoicing up-to-date by March 1997. The total development cost by that time is estimated to be \$45 million, including operations and maintenance costs of \$6 million. While royalty simplification and MRIS development are better controlled now than they were a year ago, risks still remain. As a result, in a management letter that I recently sent to the Deputy Minister, I repeated the recommendations of 1994-95. I will continue to monitor the progress of the MRIS Project, royalty simplification, and strategic planning initiatives within the Department and the Ministry.

Financial reporting at the year-end

It is recommended that the Department of Energy improve the processes which support its year-end financial reporting.

Several errors were noted in the supporting schedules which are used to prepare the Departmental, Ministerial, and government's financial statements

The Department should improve the preparation of its year-end supporting schedules. These schedules support the figures that appear in the Departmental, Ministerial, and government's financial statements. Several errors were noted this year. For example, for the 1995-96 year-end, the first version of the Forecast Model which estimates natural gas royalty related to the production months of January, February, and March contained calculation and input errors totaling \$35 million. In addition, Capital Asset schedules did not include a write down of \$7 million. Further, initial drafts of the Department's annual Salary Disclosure schedule understated total manpower expenditures by \$1.3 million.

Improved communication between the Department and the Treasury Department is necessary to enhance Provincial financial reporting

Also, improved communication with the Treasury Department would help to resolve three financial reporting concerns. In last year's annual report, I noted two accrual issues that should be resolved. The Department prepared schedules to support the recording of the accrual amounts. However, Treasury did not process the adjustments. In addition to these two issues, Treasury did not record the Department's amortization of capital assets in the General Revenue Fund financial statements. Beginning in 1996-97, Energy will prepare its own Departmental and Ministerial financial statements which may include these accruals. Energy will need to harmonize its results with the government-wide General Revenue Fund and consolidated provincial financial statements. In anticipation of this situation, the Department should ensure that co-ordination exists between its practices and those of Treasury. I will assist by raising these issues with the Treasury Department (*see the discussion under "Revenue" on page 174 for further details*).

Other entities

Financial audits of the following were also completed:

Alberta Energy and Utilities Board - year ended
March 31, 1996

Alberta Oil Sands Technology and Research Authority -
year ended March 31, 1996

Alberta Petroleum Marketing Commission - year ended
December 31, 1995

Alberta Electric Energy Marketing Agency - nine months
ended December 31, 1995

Guidance to reader

The Ministry of Environmental Protection comprises the Department of Environmental Protection, the Environmental Protection Revolving Fund, the Fish and Wildlife Trust Fund, the Environmental Protection and Enhancement Fund, the Tire Recycling Management Board, the Natural Resources Conservation Board, the Environmental Appeal Board and the Alberta Special Waste Management Corporation. In 1995-96, the Department had total expenditures of \$472 million and total revenues of \$61 million.

The primary responsibility of the Ministry is to protect and enhance the environment, and to manage Alberta's natural and renewable resources on a sustainable basis. Natural and renewable resources include air, water, forests, public lands, fish, wildlife and parks. The Ministry faces a number of challenges including achieving an appropriate balance between preservation of the environment and development of certain industries.

A significant challenge for the Ministry is to develop strategies which enable it to fulfill its objectives, while at the same time reducing costs. One of the major cost-reduction initiatives of the Ministry in the 1996 year was to negotiate a new arrangement limiting the Ministry's costs with respect to the Swan Hills special waste treatment facility.

Department of Environmental Protection
year ended March 31, 1996**Scope of audit work**

In addition to the annual financial statement audit, the following work was completed:

- an examination of the process used by the Alberta Special Waste Management Corporation to dispose of its investment in the Alberta Special Waste Treatment Centre.
- a further examination of the methodology used by the Tire Recycling Management Board for measuring the stockpile of used tires in Alberta.

Alberta Special Waste Management Corporation year ended March 31, 1996

Introduction

In last year's annual report, I provided a chronology of events pertaining to Swan Hills special waste treatment facility

In an August 1995 news release, I explained that public interest and perceptions had caused me to examine the government's involvement in the Swan Hills special waste treatment facility. In my 1994-95 Annual Report, I provided a chronology of events, starting when consideration was first given to building the facility, and ending with the government's decision to dispose of its investment in the Joint Venture that owned the facility. Some of the key events in the chronology were as follows:

March 1984	The government announced that a special waste treatment facility would be built near the Town of Swan Hills, Alberta.
April 1984	Legislation was passed establishing the Alberta Special Waste Management Corporation (ASWMC).
February 1987	ASWMC entered into the (original) Joint Venture agreement with Bow Valley Resource Services Limited which, in May 1989, changed its name to BOVAR Inc. (BOVAR).
September 1987	Swan Hills special waste treatment facility officially opened.
December 1989	Trimac Limited acquired 47% of the common shares of BOVAR.
May 1992	The Natural Resources Conservation Board approved a major expansion of the Swan Hills facility.
April 1993	ASWMC and BOVAR signed an amended Joint Venture agreement.
January 1995	Following the appointment of a new Board and President, ASWMC resolved to examine ways of divesting itself of its interest in the Joint Venture.

I could not complete the story last year because negotiations for disposal of the government's 40% investment in the Joint Venture were still ongoing

At the time my 1994-95 Annual Report was tabled, negotiations were proceeding under a non-binding letter of intent to sell the government's 40% investment in the Joint Venture to BOVAR, which, through a subsidiary company, owned the remaining 60% of the Joint Venture. Under the circumstances, I considered it inappropriate at that time to comment on the plan for disposal. I indicated, however, that I would do so at a later date, and the material that follows completes the chronology.

The main conclusions contained in my last annual report were:

My 1994-95 Annual Report charted events up until July 1995 when the letter of intent was signed. It also contained commentary on some of those events. The following were among the more significant conclusions I included in that report, and should be borne in mind when considering the terms of the sale:

The original agreement was extremely disadvantageous to the government, and contributed significantly to the excess costs that were ultimately incurred by the Province

- The original (1987) Joint Venture agreement was extremely disadvantageous to the government and contributed significantly to the excess costs that were ultimately incurred by the Province. This view is based mainly on the following:
 - * BOVAR's investment in the Joint Venture was essentially free of business risk, and both its capital cost recovery and return on investment were guaranteed by the Province. In fact, the more money that BOVAR invested in the facility, the more profit it was guaranteed to make.
 - * The return that BOVAR was guaranteed on its investment was generous, particularly when compared to the return on equity that regulated investor-owned utility companies in Alberta were allowed to earn at that time.
 - * The Province effectively guaranteed the bank loan that BOVAR raised to invest in the Joint Venture.

- * The provisions of the Joint Venture agreement governing the circumstances in which the Province could terminate or buy-out of the Joint Venture virtually ensured that terminating the Joint Venture would be difficult and very costly.

The Province failed to significantly improve its position when the Joint Venture was renegotiated

- The Province failed to use all available leverage to significantly improve its position when the Joint Venture was renegotiated in 1993.

The decision to proceed with a major expansion of the Swan Hills waste treatment facility in 1992 was a costly strategic mistake

- The decision to proceed with a major expansion of the Swan Hills waste treatment facility in 1992, without first ensuring that capital cost estimates were realistic and that regulatory requirements necessary to produce the forecasted waste streams were in place, was a strategic mistake that contributed significantly to subsequent operational and disposal costs.

My 1994-95 Annual Report also contained two recommendations. My comments on the government's response to these recommendations are on page 188 of this report.

Events leading up to the signing of the letter of intent

By early 1995 the government wanted to get out of the hazardous waste business

By early 1995, the government had decided to seek ways of disposing of its investment in the Swan Hills waste treatment facility. Among the reasons for this were that the government was downsizing, and generally removing itself from commercial involvements. As well, there was concern about the ongoing cost to the Province, and continuing uncertainties about future waste streams.

The operating and buy-out provisions contained in the Joint Venture agreement effectively resulted in BOVAR being the only party to show a serious interest in acquiring the government's share of the Joint Venture.

Negotiations began to sell the facility to BOVAR providing that a fair deal could be reached

In June 1995, ASWMC's Chairman informed his Board that the government was agreeable to a negotiated agreement that would allow ASWMC to exit the arrangement with BOVAR and ownership in the Swan Hills facility on terms which were favourable to Alberta taxpayers, having regard to the contractual obligations of the Government of Alberta. The Chairman has informed me that the "contractual obligations" referred to were the termination and buy-out provisions in the Joint Venture agreement which were an important and constraining influence throughout the negotiations.

The Joint Venture's termination provisions were a problem for ASWMC during negotiations

These termination and buy-out provisions did not allow ASWMC to terminate the Joint Venture except:

- for material or chronic breach of the Joint Venture agreement by BOVAR, or
- by mutual agreement of the Joint Venturers, or
- on December 31, 1998, and each five years thereafter, ASWMC could purchase BOVAR's investment if ASWMC could demonstrate that its future contributions to cover operating deficits and guaranteed return on investment would be unreasonably high and unlikely to decline over the next five years. Such a termination would require ASWMC to purchase BOVAR's investment at the "rate base price" which was approximately equivalent to the working capital and unamortized value of capital asset costs contributed by BOVAR.

There was no certainty that a buy-out would be possible in 1998

In 1995, ASWMC appeared to have no legal basis for terminating the Joint Venture agreement. Accordingly, the Board could either seek a mutual agreement with BOVAR, or wait until December 1998, and hope that it could demonstrate that "future contributions" would be unreasonably high and unlikely to decline. In this regard, the problems inherent in estimating future events and the lack of a definition for "unreasonably high" future contributions in the Joint Venture agreement meant that ASWMC's ability to force a buy-out at December 1998 was far from certain.

The Joint Venture's termination provisions would increase the cost of any current buy-out

It was recognized that a mutual agreement to terminate the Joint Venture would need to recognize the money that BOVAR would receive from ASWMC if the Joint Venture continued until December 1998. ASWMC estimated the contributions (excluding any capital contributions) it would be required to pay between May 1995 and December 1998 at \$122 million, and the rate base price at December 31, 1998, at \$55 million, for a total of \$177 million. If the Joint Venture continued operating until the year 2003, the amount payable would be correspondingly greater.

Letter of Intent

On July 21, 1995, ASWMC, the Province and BOVAR entered into a letter of intent to sell ASWMC's 40% interest in the Joint Venture to BOVAR. The letter of intent was not legally binding and significant negotiations were anticipated before a final sale agreement would be reached.

The letter of intent set parameters for negotiating a sale

The letter of intent was made public with a news release on July 27, 1995. In summary, it provided for the eventual transfer of the Province's 40% interest in the Joint Venture to BOVAR and the discharge of most of the Province's obligations under the Joint Venture agreement, in consideration for payments to BOVAR totaling \$147.5 million. ASWMC's Board minutes indicate that this figure was negotiated in light of the anticipated costs of maintaining the Joint Venture until 1998 under the existing arrangement.

It was anticipated that negotiations would proceed in two phases

The letter of intent provided for two negotiating phases. The first phase would cap future amounts payable by ASWMC under the Joint Venture agreement, with certain exceptions. The second phase would involve discharging most of the remaining obligations and the transfer of the Province's 40% interest in the Joint Venture to BOVAR. The letter of intent also anticipated that ASWMC would obtain a fairness opinion before entering into a binding agreement.

The fairness opinion

*A fairness opinion was
obtained from an
independent source*

ASWMC retained Coopers & Lybrand, Chartered Accountants, to provide a fairness opinion on the proposed transactions outlined in the letter of intent. In a fairness opinion dated October 10, 1995, Coopers & Lybrand indicated that, among other documents, they had reviewed various projections of revenues and costs, and future rate base prices prepared by Chem-Security (Alberta) Limited, the operator of the Joint Venture and a wholly-owned subsidiary of BOVAR. Using varying assumptions as to the volumes and prices of waste that would be processed, Coopers & Lybrand calculated the net present value of the expected payments that ASWMC would make if the Joint Venture was terminated at December 31, 1998, or five years thereafter. The net present values of the cost of terminating at December 1998 and December 2003 ranged from \$123 million to \$293 million, and 15 of the 18 scenarios calculated were higher than the payouts proposed in the letter of intent.

The concluding paragraph of the fairness opinion states:

*The opinion was that, in
context, the proposed
deal was fair and
reasonable ...*

“Based on our review of the data described, and subject to the scope of our review, restrictions, assumptions, hypotheses and other information relied upon as described in this report, in our opinion the transactions to be entered into under Phase I of the Letter of Intent by the Province of Alberta and ASWMC are fair and reasonable to the Province of Alberta in the context of:

- a) ASWMC’s obligations under the Special Waste Agreements
- b) the Province of Alberta’s public policy announcement “...that the Province will no longer be in the special waste treatment business...” and
- c) the business and financial risks attendant with continuing with the Special Waste Agreements.”

... but there were caveats

Coopers & Lybrand cautioned, however, that their “review did not include any market studies or industry surveys with respect to the special waste management industry or the System” and also that “actual results will vary from the information presented and the variations may be material.” They also noted that “in the documents and information we reviewed, there have been a number of different projections, budgets and forecasts which were prepared by Chem-Security for the Joint Venture in the past year. There is a wide range of revenues under varying assumptions and operating conditions in these documents. It appears for the most part previous budgets and forecasts of volumes and prices to the System, and therefore revenues, have seldom been accurate and indicate the difficulty in predicting future revenues.”

The Definitive (Phase 1) Agreement

Phase 1 of the Agreement capped the Province's obligations

The Definitive Agreement was signed and tabled in the Legislature on October 18, 1995, together with the fairness opinion. Under this Agreement, BOVAR received \$8.3 million in exchange for, among other things, limiting ASWMC's post-July 1, 1995 obligations under the Joint Venture agreement to \$139.2 million (\$147.5 million less \$8.3 million).

The money to discharge the Province's future obligations was set aside, though some other obligations remained

The \$139.2 million was paid to 542936 Alberta Ltd. (a company wholly-owned by ASWMC) which also assumed responsibility for most of the Province's remaining rights and obligations under the Joint Venture agreements, including the obligation to provide operating contributions. ASWMC retained responsibility for site closing, decommissioning and remediation costs and land-fill cell monitoring, and the provision of certain indemnities with respect to insurance. The ASWMC guarantees for BOVAR's bank loan and the Joint Venture housing loans also remained in effect, but could be discharged from the monies held by 542936 Alberta Ltd.

All the above transactions were essentially as contemplated by the July 21, 1995 letter of intent.

**The Share Sale (Phase 2)
Agreement**

Phase 2 closed the deal and transferred full ownership of the facility to BOVAR, however the Province was still responsible for certain costs

BOVAR has ongoing obligations under the final agreement

The Province could, in the future, get some of the money back

The Share Sale Agreement was signed in July 1996 and was tabled in the Legislature on August 14, 1996. Under the terms of the agreement, 542936 Alberta Ltd. was sold to BOVAR Technologies Ltd. for \$1. ASWMC and the Province were released from the guarantees respecting BOVAR's bank loan and the Joint Venture housing loans. ASWMC and the Province were also released from the obligation to provide insurance indemnities. However, the Province retained responsibility for site closing, decommissioning and remediation costs, and land-fill cell monitoring at the Swan Hills site.

Under the Share Sale Agreement, BOVAR has agreed to treat at reasonable rates all Alberta-generated waste delivered to the Swan Hills facility at least until December 1998, and to maintain the facility to agreed standards. BOVAR is also required to provide ASWMC and the Province with a performance bond, initially in the amount of \$30 million and declining by \$6 million every six months to December 1998. In the event that BOVAR becomes insolvent or ceases operations prior to January 1, 1999, other than as a result of default or act by the Province or ASWMC, the Province or ASWMC has the right to acquire the facility and the housing for \$2, and obtain payment of the amount then remaining under the performance bond.

Also under the Share Sale Agreement, ASWMC is entitled to proportionate shares of any future net income (as defined) earned by the Swan Hills facility, and the proceeds from sales of certain assets during the period ending December 2003. The percentages of these shares either reduce annually or to a minimum base. ASWMC also has right of access to certain of the facility's documents and records for the purpose of determining that it receives all amounts to which it is entitled.

**Conclusions and
recommendation**

*It may never be possible
to assess the true
benefits of the deal*

It is very difficult to assess whether the decision to terminate the Joint Venture agreement in 1995, instead of waiting until December 1998 and attempting a buy-out at that date, will ultimately benefit the Province financially. Forecasting waste streams and treatment revenues has been consistently unsuccessful throughout the facility's life. Forecasts were often rendered inaccurate by such factors as generators' ability to reduce waste production, treat their own wastes, or sell waste as kiln fuel. Regulatory changes can and have had huge impacts on the volumes of wastes available for treatment. For example, future decisions by the Government of Canada with respect to its ban on the export of Canadian PCB waste to the United States could well impact the waste available for treatment at Swan Hills. It will also be difficult to determine the effect of BOVAR's ownership of the facility on the facility's operations and results. Factors such as these can, and no doubt will, have significant impacts on the operations and profitability of the Swan Hills treatment facility over the coming years.

*Whether \$147.5 million
was a reasonable price
may never be
determined, but the
process used to verify it
was reasonable in the
circumstances*

As explained above, it will be difficult to determine what would have happened financially if the Joint Venture had continued to operate under the original arrangement. And in addition, we will never know whether ASWMC would have been able to force a buy-out of BOVAR's investment in the Joint Venture at December 1998. Thus, even with the advantage of hindsight, it may never be possible to assess objectively whether \$147.5 million was reasonable consideration for releasing the Province from its obligations under the Joint Venture agreement. As indicated earlier, however, \$147.5 million is an approximation of the net present value of the amount that ASWMC estimated it would pay to the Joint Venture and BOVAR from July 1995 to December 1998, assuming that a buy-out were possible at that date. Given these factors and other uncertainties, I am satisfied that ASWMC used a rational and systematic process to review the reasonableness of the consideration paid to BOVAR.

Strategic mistakes in past years materially increased the cost of the buy-out

It is important to remember, however, that the amount that ASWMC would have paid to the Joint Venture and BOVAR from July 1995 to December 1998 was materially influenced by two previous events. One event was entering into a Joint Venture agreement with Bow Valley Resource Services Limited in 1987 that contained such difficult and costly termination and buy-out provisions. And the other event was the decision to proceed with such a large and costly expansion to the treatment facility in 1992. The effect of the second event on the buy-out calculation undoubtedly increased significantly the cost to the Province of divesting itself of its investment in the Joint Venture.

The overall costs incurred by ASWMC in connection with the Swan Hills waste treatment facility as discussed in my last report have been revised slightly

In my 1994-95 Annual Report (page 12), I provided an accounting of the costs (exclusive of the eventual site closing, decommissioning and remediation costs) incurred, and to be incurred, by ASWMC in connection with the Swan Hills waste treatment facility. The total cost was \$440.9 million. As part of the Share Sale Agreement, however, some additional costs were identified. These included interest of approximately \$2.1 million to compensate for earnings foregone because the \$147.5 million was not paid on the effective date of July 1, 1995. Taking these and other lesser adjustments into account, I now estimate the total to be \$443.7 million.

The relevant documents were all tabled in the Legislature or otherwise made public by the government

As indicated earlier, the letter of intent, the fairness opinion, the definitive agreement and the Share Sale Agreement were all tabled in the Legislature or otherwise made public by the government. In view of the public interest in this process, I consider this to be good accountability. The fact that these are now public documents has also enabled me to limit my descriptions of their contents herein to the facts necessary to provide the reader with an understanding of what occurred.

BOVAR has ongoing obligations

BOVAR has a number of obligations under the Share Sale Agreement. These include:

- operating the facility at least until December 1998,
- acquiring certain insurance coverage,
- maintaining the facility to certain standards, and
- paying ASWMC a portion of any net profits (as defined) and of the proceeds of any capital asset sales.

The Province's remaining rights and interests must be protected

Under the Share Sale Agreement, ASWMC has the right to inspect the facility, examine its financial records and approve or disapprove any offer to sell all or part of it. In certain cases, particularly with respect to the performance bond, ASWMC must exercise its rights or provide notice of objection within prescribed time-frames. It is important, therefore, that the Province establish responsibilities and procedures for the ongoing monitoring of BOVAR's performance under the agreement to protect the Province's interests. Accordingly, I have made the following recommendation to the President of ASWMC:

Monitoring compliance with Agreement

Recommendation No. 11

It is recommended that arrangements be made and responsibility be assigned for monitoring compliance by BOVAR with its commitments, and generally ensuring that the Province's interests are protected, as they relate to the Agreement to dispose of the interest in the Swan Hills Joint Venture.

I am informed that planning has begun for an arrangement to monitor BOVAR's compliance with the Agreement.

Tire Recycling Management Board year ended March 31, 1996

Stockpiled tires

The Board's business plan states that one of its goals is to reduce any backlog of scrap tires

In my 1994-95 annual report (page 112), it was recommended that the Tire Recycling Management Board establish a reliable methodology for measuring stockpiles of used tires to determine whether the Board's objective is being achieved.

The Tire Recycling Management Board's business plan for 1996 to 1999 states that one of its general goals is to reduce any backlog of scrap tires not processed under the Board's programs.

The Board has yet to quantify the success achieved in terms of the percentage reduction of the backlog of used tires

During October to December 1995, the Board initiated a survey of tire stockpiles at public landfill sites. Using a formula developed by a consultant, the Board surveyed 41 sites, which represented approximately 78% of the estimated stockpiled tires at all Alberta landfills at December 1995.

The Board is working on surveying the remaining landfills and determining the environmental risks associated with the stockpiles

The Board is currently working on a strategy to survey stockpiles at the remaining public and private landfill operations to definitively be able to quantify the success achieved in terms of the percentage reduction in the backlog of used tires. As part of the landfill registration process, the Board is also working to determine the environmental risks associated with the stockpiles.

Progress to date has been satisfactory

I am satisfied with the progress made to date, and will continue to monitor the Board's performance reporting.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1996:

Environmental Protection Revolving Fund
Natural Resources Conservation Board
542936 Alberta Ltd. (a subsidiary of the Alberta Special Waste Management Corporation)



Guidance to reader

The mandate of the Ministry of Family and Social Services is to protect the social well-being of Albertans. It attempts to satisfy this mandate by helping families be responsible and accountable, by helping adults be independent and by keeping children safe. Programs are delivered through agencies or offices of the Ministry.

The Department of Family and Social Services is redesigning the way it delivers its Persons with Disabilities and Child Welfare programs—it intends to implement community based delivery systems. Total 1995-96 expenditures of the Department amounted to \$1.3 billion.

The Department's Income Support and Employment programs are among the largest for which the Department is responsible. I believe that my recommendations in this area can improve the services provided to persons requiring support income or employment programs, and also reduce costs.

1996-97 is the final year of funding for the Metis Settlements Transition Commission. I am concerned with the progress made by Metis Settlements towards independence and the need for additional support once the Commission's operations are terminated. My recommendations stress the importance of establishing good governance through better planning and policy development.

My staff are providing assistance to the Department in a number of other areas. For example, a representative of my Office is a member of the Office of the Commissioner of Services for Children and Families Funding Working Group, which is progressing the implementation of the new child welfare structure. In this way we are promoting the establishment of appropriate accountability structures. My staff have also been assisting the Department with the development of performance measurement systems.

Department of Family and Social Services
year ended March 31, 1996**Scope of audit work**

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to pay benefits to clients to supplement their earnings or to provide support while they are seeking employment or training under the Supports for Independence program.
- An examination of benefit payments under the Supports for Independence and Assured Income for the Severely Handicapped Programs. This examination included reviewing the procedures used for promoting compliance with the Department's program manuals, and the progress made in addressing recommendations made in this area in previous years.
- An examination of the operations of the Fraud Investigation Unit.
- A review of the influence exercised by the Metis Settlements Transition Commission over Metis Settlements, and the settlements' progress towards self-sufficiency.
- A review of a funding agreement between the Department and the Kikino Metis Settlement Council.

**Supports for Independence -
supplement to earnings and
related assistance****Recommendation No. 12**

It is recommended that the Department of Family and Social Services review the status of clients whose earnings are being supplemented or who are receiving support while they are seeking employment or receiving training, to determine whether appropriate assistance is being provided to help them become financially independent.

Clients who are employed are expected to improve upon their position and eventually leave the program

Some clients who receive Supports for Independence benefits are employed full or part-time, and are categorized as being in need of a supplement to their employment earnings. Clients with sufficient ability are expected to increase their earnings by working more hours or by finding better paying jobs.

These clients represent nearly one quarter of the total Supports for Independence caseload

In June 1996, Supplement to Earnings clients comprised 23% of the Supports for Independence caseload. During 1995-96, these clients received direct financial assistance totalling approximately \$83 million.

File testing revealed that many clients are not being motivated to achieve independence

Of the files reviewed by my staff, 70% contained no indication that there were barriers to the clients' ability to increase their earnings, yet there was little evidence that Departmental staff were promoting the financial independence of these clients. It would appear that either the Department is not adequately documenting the reasons why these clients cannot become independent, or the financial independence of these clients is not being promoted.

First, the Department must identify those clients who need help ...

The Department needs a better system for identifying those Supplement to Earnings clients who have effectively reached their employment potential, and those who could perhaps do better if given more training or other assistance. This would enable Departmental staff to target this second group of clients for the services they need to become more independent.

... then decide on the nature of the help needed

Having identified those clients with potential to do better, the Department has to decide on the nature and level of assistance they need. The Department's operating policies recognize this by requiring employment plans to be prepared for all Supplement to Earnings clients who are in part-time employment.

Employment plans that are crucial to providing help are often not prepared

Employment plans are important. They not only document the client's abilities, needs and goals, but also constitute a contract between the client and the Department for the achievement of those goals. Yet 30% of the files of Supplement to Earnings clients that my staff reviewed did not contain an employment plan. In this regard, other Supports for Independence clients who are seeking employment or receiving training are also required to have employment plans, yet 8% of the files that my staff examined did not have them.

In summary, there is scope for the Department to do a better job of identifying those clients with potential for becoming more financially independent, and helping them realize that independence.

Supports for Independence - Program results

It was recommended last year that the Department determine the impact and cost of various initiatives

In my 1994-95 annual report (page 116), it was recommended that the Department determine the results and costs of the various initiatives it has implemented to reduce the Supports for Independence caseload. I believe that information about the impact and cost effectiveness of these initiatives is essential to future program design. In particular, the Department needs to know why clients leave the Supports for Independence program, and why they return.

The recommendation was accepted

The Department is in the process of tendering a contract to an independent evaluator to determine the impact of the welfare reform initiatives implemented in 1993.

Supports for Independence - Documentation

\$675 million was paid out in benefits in 1995-96

It is recommended that the Department of Family and Social Services set a tolerance level for deficiency of evidence in the files of clients who receive benefits under the Supports for Independence and Assured Income for the Severely Handicapped programs, and develop plans to reduce deficiencies to that level.

Benefits provided under the Supports for Independence and Assured Income for the Severely Handicapped programs during the year ended March 1996 totalled almost \$675 million.

As in past years, the evidence needed to support benefit payments was often deficient

Each year, my staff examine a sample of benefit payments, and the documentary evidence available to show that the clients were eligible for the amount of assistance provided. A recurring problem has been that client files do not always contain the necessary evidence, such as documentation to confirm the client's identity, medical condition, living arrangements, dependants, etc. Of the files examined during 1995-96, 33% had deficiencies of this nature, compared to 35% of the files examined during 1994-95. The Department's own systems confirm the extent of the deficiencies.

A 0% deficiency rate is perhaps unrealistic, but a rate of 33% is much too high

It is recognized that because of the volume of transactions, and the complexity of the Supports for Independence and Assured Income for the Severely Handicapped programs, some errors are inevitable. At the same time, the Department agrees that the current error rate is unacceptable.

The Department has analyzed the errors it has detected. It now needs to evaluate the full impact of those errors, determine the level of error that can be tolerated, and work towards reducing the errors to that level.

Supports for Independence - controls over program payments

In my 1994-95 annual report (page 119), it was recommended that the Department extend its testing of client files that contain irregularities, to determine the monetary impact of deficiencies caused by Departmental staff not adhering to standard procedures.

Progress has been made, but the monetary impact of errors found can be improved

The Department's regional auditors now conduct follow-up reviews of irregularities of this nature to determine their monetary impact. However, the Department considers that a significant number of these irregularities were impossible to evaluate in monetary terms. While I acknowledge the progress that has been made, and I recognize the difficulties involved in quantifying certain errors, I believe this is an important initiative and that efforts should continue.

Supports For Independence - Fraud Investigation Unit

The following recommendation arose from an audit of the operations of the Department's Fraud Investigation Unit. The Unit's mandate has primarily been to review instances of abuse in the Supports For Independence Program, which is where my review focused. The Unit's mandate has recently been expanded to include other areas within the Department.

Fraud prevention initiatives

It is recommended that the Department of Family and Social Services communicate information about observed instances or methods of program abuse to all program delivery staff, thereby allowing them to develop better systems and procedures for preventing or detecting similar types of abuse.

Better communication of information could assist to reduce the incidence of program abuse

Following each investigation, Unit staff complete an investigation report. These reports contain information about the original allegations, the investigation's scope and findings, and recommendations for further action. Little of the information contained in investigation reports, however, is communicated to staff responsible for delivering benefits and/or preventing or detecting fraud. The Department may therefore be missing opportunities to reduce the incidence of program abuse. Consolidating the more significant information obtained into program manuals would be one way of achieving improvements.

Kikino Metis Settlement Agreement

It is recommended that the Department of Family and Social Services improve the monitoring of programs it funds to ensure they are achieving the results expected, are used for the purposes intended, and, if problems occur, take appropriate action to recover funds and restore services.

The Department provided funding totaling \$86,700 to the Settlement to operate Youth Development and Family Support Programs at Kikino

The Department has provided funding for youth and family support programs at Kikino for more than eight years. The purpose of the Kikino Metis Settlement Agreement was to provide funding totalling \$86,700 to the Settlement to operate Youth Development and Family Support Programs from July 1994 to October 1995.

Departmental staff were slow to recognize problems when they arose, and to restore services intended to be delivered

In July 1994, the trailers used to deliver the Youth Program were demolished, and the program did not operate at all for approximately three months. However, Departmental staff were not monitoring the programs' operations at the Kikino Metis Settlement. As a result, it was not until November 1994 that Departmental staff became aware that the trailers were gone, and that the program was not operational. During this time the Department continued to make payments under the agreement; money to fund salaries and other costs. It took a further six months before an arrangement was reached with staff of the Youth program

There is a need for the Department to improve its monitoring of the Kikino Metis Settlement Agreement

that they would volunteer additional hours to compensate for the payments they had received when the program was not operating.

In summary, lack of proper monitoring resulted in Departmental staff being unaware that the Youth Program had ceased operating. Even when they were alerted to the situation, Departmental staff did not act promptly to ensure that services were restored, and to deal with those who had received public money for services which were not provided.

Funding agreements

The agreement lacked clarity and precision in important areas such as goals and funding allocations

It is recommended that when entering into funding arrangements for the delivery of programs or services, the Department of Family and Social Services ensure that the agreements clearly specify the results to be achieved, how the funding is to be applied and the services that are to be delivered.

The agreement between the Department and the Kikino Metis Settlement Council had two components - a youth program component and a family support program component - and was intended to address many social and economic issues at the Settlement. The agreement was 37 pages long and written in a style that could be confusing to those responsible for administering the programs. In some cases it was unclear how activities would achieve goals set for the programs. It was also unclear how funding was to be allocated to the program components and activities, and how settlement members or the Department were expected to determine whether program goals were achieved.

Describing and measuring social goals is difficult but important

I believe that funding agreements written in plain English, with fewer but more readily understandable goals, would enable the parties to such agreements to focus on those issues that require the most urgent attention. I acknowledge the difficulty of describing some social improvement goals in ways that enable their achievement to be measured. Nevertheless, where this can be done, it encourages the achievement of the goals and facilitates the monitoring and reporting of results.

Metis Settlements Transition Commission
year ended March 31, 1996**Longer-term planning****Recommendation No. 13**

It is recommended that the Metis Settlements Transition Commissioner encourage Metis settlement councils to develop business plans setting out longer-term operating strategies and financial forecasts, thereby enabling the Commissioner, settlement councils and settlement members to guide each settlement's progress towards self-sufficiency as envisaged by the Metis Settlements Accord Implementation Act.

The Commission's purpose is to help Metis settlements achieve self-sufficiency by 1997

The Metis Settlements Transition Commission was established to provide the eight Metis settlements with help towards self government over a seven year period ending March 31, 1997. Over the seven year period, the Province will have contributed \$175 million to the eight settlements, and incurred administrative costs of approximately \$35 million. A further transitional period of ten years will provide reduced funding and allow settlements to operate in a municipality-like fashion, but without the support of the Commission.

Longer-term business plans or forecasts would be useful for settlement councils

As 1997 approaches, it is vital that Settlement councils have strategies for dealing with the economic effects of the reduced funding. Most settlement councils currently appear to focus mainly on the annual budget cycle, paying less attention to longer-term considerations. I am aware of only one settlement council that prepares three-year plans. Settlement councils could use longer-term plans to explain to settlement members how they intend to use future funding to administer settlement affairs, to build a healthy community and to stimulate the settlement's economy. Such plans could also show how, and to what extent, settlement councils expect to match costs and revenues when the main funding under the Metis Settlements Accord Implementation Act diminishes after 1997.

Longer-term business plans would be useful to the government and members of settlements

Longer-term business plans would also enable the government and settlement members to assess the planned progress of settlements towards financial self-sufficiency. Where, in future years, settlements anticipate raising revenue that is eligible for matching under the Accord, they will also be able to provide the government with expenditure figures for budgeting purposes.

Settlement administrative policies

It is recommended that the Metis Settlements Transition Commissioner make every effort to persuade Metis Settlements to adopt administrative policies that are seen to be fair, are understandable, and are supported by the majority of Settlement members.

Legislation defines broad statements of council operations but anticipates development of local policy and by-laws

The powers and authorities of settlement councils are governed by the Metis Settlements Act and the Metis Settlements Accord Implementation Act. These statutes set out broad statements of intent, but leave settlement councils to supplement the legislation with administrative policies and by-laws.

There is a need for better policies governing settlement operations

Most Metis Settlements lack well-defined and understood policies governing the Settlement Council's operations. For example, policies are needed to govern the allocation of houses, the allocation of jobs within the Settlement, expense claims, loans and advances by Settlement Councils, the tendering of equipment, and the collection of Settlement revenues. Effective policies are an essential component of good governance. Without them there is disorder, confusion and mistrust.

Other entity

A financial audit of the **Metis Settlements Transition Fund** was also completed for the year ended March 31, 1996.

Guidance to reader

Federal and Intergovernmental Affairs develops government-wide policy and strategies for Alberta's relations with other Canadian governments and the international community. Virtually every ministry in the government is affected by an issue which reaches beyond Alberta's borders. The Ministry works closely with these ministries and through strategic partnerships with business and organizations to influence the policies of other governments. It will take the lead role, co-ordinate or act as advisor depending on the nature of the specific task.

The 1996-97 business plan for the Department shows expected spending to range from \$5.1 million in 1996-97 to \$4.8 million in 1998-99. Actual spending for the year ended March 31, 1996 was \$5.8 million. Manpower costs make up the significant portion of the spending. The Department does not manage any significant revenue systems.

Due to the size and nature of the Ministry's spending, it is not faced with any unusual or significant financial risks.

There were no matters reported to management at the end of this year's annual financial audit of the **Department of Federal and Intergovernmental Affairs**.



Guidance to reader

The mission of the Ministry of Health is to protect, maintain, restore and enhance the health of Albertans. The health system is expected to operate with greater involvement from health service consumers and stakeholders, to be community centered and based, to be more focused on the protection and promotion of health, as well as to be health results oriented.

Department of Health expenditures declined to \$3.7 billion in 1995-96 as a result of restructuring initiatives. The expenditures in prior years were:

1994-95	\$3.9 billion
1993-94	\$4.0 billion
1992-93	\$4.2 billion
1991-92	\$4.0 billion
1990-91	\$3.7 billion

Of the total expenditure in 1995-96, \$2.3 billion relates to payments made to regional health authorities (RHAs) and provincial health boards (PHBs). The Minister of Health has announced that the system will move towards population-based funding. This means funding will be provided to regional health authorities based on their population, adjusted for various factors, such as age and gender, socio-economic status and health risks.

1995-96 was the first full year of operation for the newly established regional health authorities. During the year, the Department of Health and the authorities adapted to the restructuring initiatives. This often required new or revised operating policies, organizational structures and information systems.

The recommendations which follow recognize the need for management to ensure that significant risks in the health system are minimized through the use of adequate information. There is a major need for improved health information, and systems to deliver that information. To be useful, the information and systems must support health workers, management, boards, regulators, legislators and the public in the process of aligning health service expectations with the results achieved. The information and systems must drive the allocation of resources to achieve cost-effective services. The information and systems must point the way to improving the quality and level of health services.

Information can help focus debate on results to be achieved. Information on results or lack of results can also be motivational. To be useful, information needs to be properly integrated into the accountability cycle to help match health service expectations, resources allocated and results achieved. Based on the work that my Office has conducted in the sector, I am concerned about the quality of information in the health system, and the lack of focus on what information is needed. Too often, proposed solutions to information needs are based on investment in computer hardware and software, rather than on an assessment of what new information could help improve health service delivery. Unless there is a determination of what operating, management and governance information is needed, and how this information should flow, we will continue to experience the symptoms of an inadequate vision of the information needed to manage a complex health system.

Information systems are often designed in a stand alone manner to support certain organizational functions or requirements. However, much of the information produced is not directly linked to formalized accountability reporting processes. To be useful and fully relevant, systems need to provide information in a way that integrates clinical and financial data with processes necessary for planning and expectation setting, delivery of health services and the evaluation of results.

My Office has also observed that information systems are often not designed in a manner that would permit effective two-way communication about results expected and the measurement of results achieved. For example, budget processes sometimes consist of a top-down allocation of funds rather than a process of establishing the best practices and related costs through consultation with the various stakeholders, including those who work at the front line. We have also observed that adequate timely operating information, including monthly updates of annual forecasted clinical results linked with expected fiscal results, is often not available. I believe that this lack of information can have a significant impact on decisions related to health service quality and delivery. Adequate information would also assist communications with various stakeholders in the health system and thereby help to improve confidence in the

quality of the health systems or point the way to needed improvements.

Central to quality health systems is effective governance and accountability. I believe that accountability and governance are often understood in a conceptual manner. However, considerable difficulty exists in applying these concepts in practice. Boards, management and departmental officials need to take a broader interest in the systems and the information necessary to ensure that significant controllable risks are minimized through proper governance. Effective governance and accountability would result in the identification and resolution of outstanding issues. There needs to be accountability information for quality, appropriateness of services, and cost and effects of services. I believe that accountability information is essential for good governance, and measurement of performance is a tool that makes accountability work.

Many of these issues were raised in my previous report and I am concerned that the Department of Health has not made sufficient progress in resolving the issues that were previously identified. I intend to continue to work with the Department to assist in resolving these issues.

Therefore the main thrust of my recommendations are based on:

- effective governance,
- information needed to deliver high quality health service and the systems needed to support this information flow,
- improving financial reporting by Regional Health Authorities and Provincial Health Boards, and
- improvements needed in health program administration, including the medical fee for service system.

Department of Health year ended March 31, 1996

Scope of audit work

In addition to our annual financial audit, the following work was completed:

- An examination of the use of clinical practice guidelines.
- An examination of the systems used to provide information on health services.
- An examination of the process used to determine the financial reporting requirements of the Regional Health Authorities (RHAs) and Provincial Health Boards (PHBs).
- An examination of the systems used to pay medical claims.

Governance

Assessment of Regional Health Authority governance

Recommendation No. 14

It is recommended that the Department of Health, with the participation of the Regional Health Authorities, review the progress made by the authorities in establishing effective governance with a view to promoting best practice.

Effective governance models should be promoted

The same recommendation was made in the 1994-95 annual report (page 129). Although some action has been taken to address this recommendation, the Department needs to fully address how to promote effective governance models that will encourage the operation of an effective health system. The RHAs receive approximately \$2.3 billion annually for the provision of health services to Albertans.

Health restructuring has provided management with extraordinary challenges

It was noted that health restructuring has provided the management of health authorities with extraordinary challenges that must be tackled. The environment of complex service delivery and restructuring tests the very best managers.

The Department needs to assess whether the critical elements of governance are in place in the RHAs

I had recommended an assessment of whether authorities have been successful in developing a governance system to promote organizational objectives. The assessment of the governance system would focus on:

- the adoption of a strategic planning process;
- the identification of principal risks of the organization's operations and ensuring the implementation of appropriate systems to manage these risks;
- the adequacy of the organization's operational systems, information flow and systems of internal control;
- a communications policy for the organization; and
- the process of appointing, training and appraising senior management.

By assessing the quality of governance, the Department can influence health reform

The Department continues to provide general guidance to the boards of the RHAs. For example, at my July 1996 presentation to the RHA/PHB Boards, issues relating to governance and accountability were discussed. The Department now needs to assess if the system used for governance addresses all critical issues related to governance. Issues related to the Boards' responsibilities for internal control systems and external communication may not be well understood. Assistance could also be provided on the roles of committees and how they can operate effectively. I believe that the Department can significantly influence the achievement of the objectives of health reform by influencing the types of governance models that operate at RHAs and PHBs.

Information and Supporting Systems

Information to identify the most effective clinical practices

Introducing clinical practice guidelines will help the Department achieve its goals

There is no Province-wide focus

The Department needs assistance in developing clinical practice guidelines

Use of clinical guidelines will result in more effective health outcomes

Recommendation No. 15

It is recommended that the Department of Health implement a framework that allows health authorities to provide health services that take advantage of the best practices for providing quality care.

One of the goals of the Department is to introduce legislation, policy, and standards to facilitate continuous improvements in service quality and protect the health of the population. Clinical practice guidelines are a proven tool in helping increase the effectiveness of treatment of individual illnesses and in promoting the effective use of funds.

Whereas a few health authorities are developing certain guidelines that will help improve quality of care, the Department should encourage the development of a Province-wide framework that promotes evidence-based decision making.

The Department, the health authorities, the Alberta Medical Association and health care providers need to collaborate on a process that will support decisions on the appropriateness and effectiveness of medical services on a Province-wide basis.

The process should allow health authorities to jointly share in research on best practices and encourage these practices to be implemented. Scientific-based research on clinical procedures can determine effective treatment by gathering evidence on the treatment patterns that have resulted in the most effective outcomes. The use of research can result in development of clinical guidelines that increase the quality of the care provided and reduce costs.

The Department can promote the use of best practice clinical guidelines by:

There are many ways for the Department to promote the use of clinical practice guidelines

- determining areas of treatment where improvements would have the most impact based on factors such as cost, effectiveness of outcomes, and variations in medical practices for a specific diagnosed condition;
- developing systems to encourage the use of guidelines by practitioners and others involved in providing treatments impacted by a guideline;
- promoting the use of guidelines that have proven to be effective;
- monitoring the use and results of guidelines across the Province; and
- adapting and modifying the guidelines based on new information and the availability of new technology and procedures.

Information needed for accountability, governance and operating purposes

Health information currently available is not complete nor integrated

Recommendation No. 16

It is recommended that the Department of Health develop a reporting framework that provides the information needed by the public, MLAs, board members, management and operating staff for accountability, governance and operating purposes.

The Department requires various reports such as business plans, budgets, annual reports, financial statements and salary disclosures, and special information requested on an ad-hoc basis. However, information for accountability, governance and operating purposes is not yet complete or integrated. There is a need to link information on expected services and resources provided with the actual services delivered and resources consumed. This information is needed to support decisions related to the attainment of health goals and should be available in a suitable form to the public, MLAs, board members, management and operating staff.

A vision of accountability reporting has to be made clear

Directions provided by the Department to the health authorities do not clearly convey the Department's vision of how the reporting framework supports the attainment of health goals and how the information will be communicated to the various users.

In developing the reporting framework, the Department should consider the following:

*Performance
information is needed*

- There is a need to provide performance information on health services in addition to financial performance information. Health programs need to be defined in a manner that supports the measurement of performance. Information provided should support assessments of cost-effectiveness by relating costs of services to the value of these services. Defining outputs and outcomes and developing information sources requires study, but the Department's strategy for reporting such information should be established.

*Two-way communication
of performance
information is necessary*

- Communication relating to performance should occur at various stages of the accountability cycle and at various levels of an organization. An effective reporting process should be aligned with the accountability cycle, with information usefully disaggregated at the various organizational levels. This would permit two-way communication which is necessary to encourage all levels to co-operate to meet organizational goals.

*The information
reported should be
useful*

- The principal characteristics of reporting are understandability, relevance, reliability, and comparability. The cost of reporting should not exceed the benefits. The Department should consider general purpose financial statements that include supplementary performance information to meet the needs of the majority of users. Where additional information is required for specialized purposes, it should be provided through special reports.

*External reporting
should be aligned with
internal reporting*

- There is an opportunity to align external reporting with the information reported internally. This would improve the efficiency of preparing information to be used for external reporting.

**Development of information
systems****Recommendation No. 17**

It is recommended that the Department of Health in collaboration with health authorities establish a process that will guide the development of information systems capable of providing the information necessary to assess the effectiveness of publicly funded health services.

Decisions taken about health services must be supported by appropriate information

The Department and health authorities are responsible for providing effective health services to Albertans, including the prevention and treatment of illness and palliative care. The Department provides funding of approximately \$3.7 billion to Regional Health Authorities, Provincial Health Boards, physicians, and others for prevention and treatment of illness. One of the Department's goals is to ensure that decisions about health and health services are supported by appropriate information.

Investments in new information systems are significant

Regional Health Authorities and Provincial Health Boards are making, or intend to make, significant investments in new information systems and technology. The three-year business plans of many of these health authorities include requirements for information technology plans, plans for the development of new information systems, or plans for improvements in existing systems in order to meet information needs.

Systems should provide the necessary information

Although there is a conceptual understanding of the health system information requirements, the definition of those needs and the standards for the information are not developed nor consistently understood. Existing information systems across the health system are fragmented and do not currently provide all the required information.

Systems must help to meet multiple information needs

Information systems should help to:

- link clinical information with financial information;
- match existing clinical practices against the standards of best clinical practices;
- identify costs of programs and services. This will enable the health authorities to identify opportunities for improvement in the cost-effectiveness of health programs through comparison with others within and outside the Province;
- monitor individuals' and operating unit performance against previously established expectations, targets and

The Department can assist in the development of appropriate systems

- budgets;
- support boards, management, employees and other service providers in decisions related to health services and the related resource requirements including long-term planning and daily operating requirements; and
- forecast long and short-term performance.

The Department can assist health authorities in the development of appropriate information systems by:

- defining common information requirements and standards;
- evaluating currently available systems which are capable of collecting and reporting the necessary information; and
- determining what information is needed and collaborating with others to decide how this information can be collected.

The Department must help develop comparable information at least cost

The Department's assistance will help health authorities focus on health information needed on a Province-wide basis and on a cost-effective investment in health information systems. This assistance should result in reduced systems development costs, and information that is useful, understandable and comparable on a Province-wide basis.

Financial Reporting by Regional Health Authorities and Provincial Health Boards

During 1995-96, the Department of Health provided guidance to the Regional Health Authorities (RHAs) and Provincial Health Boards (PHBs) on the preparation of financial statements. I endorse the Department's position that health authority financial statements should be prepared in accordance with generally accepted accounting principles and that accounting policies adopted should be consistent among health authorities.

Financial reporting

Recommendation No. 18

It is recommended that the Department of Health resolve issues related to financial reporting by health authorities and communicate its requirements in a timely manner.

The Department prescribes financial reporting for RHAs

The Department prescribes the financial reporting required under legislation by the Regional Health Authorities and Provincial Health Boards. The requirements for health authority financial statements for 1995-96 were contained in a 188 page financial Directive issued by the Department.

First steps in improving financial reporting have been taken

The Department has made significant progress in ensuring that the RHA/PHB financial statements are based on generally accepted accounting principles and that financial statements are prepared on a comparable basis among health authorities. This achievement is a first step in providing comparable information on the resources consumed. The next steps should provide for financial and non-financial information in terms of the services provided and the cost and effect of such services.

The standard setting process should be more efficient

In my 1994-95 report (page 135), I recommended that the Department examine its financial reporting guidance to regional health authorities. Although significant progress in financial reporting has been made, I believe that the existing standard setting processes have not been as effective as they could have been. Delays in finalizing reporting requirements resulted in extra effort and costs to properly compile the required information. As a result, the process did not permit financial statements to be completed by the Department's deadline of June 30. Drafts of financial statements needed changes to meet the requirements issued in 11 updates to the Directive. The Directive also required that amounts paid directly by Alberta Health to certain service providers in each region be accounted for in the health authorities' financial statements. Consequently, the Department had to provide each health authority with information on amounts paid for their region. However, certain information provided by the Department to the regions was incorrect and corrections were needed. The Directive also requires the auditor's report on a health authority's financial statements to include an opinion on compliance by the authority with the financial Directive. However, the original Directive did not provide direction to auditors on which matters in the Directive were significant and which may not be significant in terms of financial statement presentation.

The standards should identify where flexibility is appropriate

My staff assisted the Department in resolving the above matters. However, the Department will need to continue to provide direction in financial reporting by health authorities. I am concerned that reporting issues be resolved and communicated in a timely manner. I am also concerned about the extent to which the Department's policy prescribes the contents of the financial statements. In my view, some discretion concerning the information that is material and needed in each circumstance should be permitted. The onus should be on the health authorities and their auditors to ensure that significant matters are properly disclosed and that the needs of financial statement users are met.

My staff also noted that health authority staff are experiencing difficulties in classifying expenditures on a basis which can be compared among regions. This matter has not yet been resolved.

Accounting for capital asset contributions

Recommendation No. 19

It is recommended that the Department of Health ensure that its direction to health authorities on reporting capital contributions is consistent with responsibility for funding capital asset replacement.

Most capital asset costs are funded by the Province

The consumption costs of capital assets are reported as amortization expenditure in the capital fund in the financial statements of RHAs and PHBs. The majority of the capital asset costs of RHAs and PHBs have been funded by Provincial contributions. Other capital asset costs are funded by contributions from foundations, community donations and from funds generated by operations.

There are two ways of accounting for capital asset contributions

There are two alternatives under generally accepted accounting principles in accounting for capital asset contributions. Capital contributions can be matched to the related amortization to show that costs were fully funded, or contributions can be recorded in the capital fund in the year the contribution is received. Where assets are funded from operating funds, amortization costs can be matched against operating revenue to show that operations are generating sufficient revenue to meet the amortization costs, or the amortization costs can be reported in a capital fund. Through the matching of operating and capital contributions with amortization costs, it is possible to determine whether

Matching funding and expenses—in this case the advance contribution and the amortization—is useful

the revenues are sufficient to meet expenses.

RHA and PHB financial statements disclose the results of operations for the year in an operating fund and a capital fund. These financial statements for 1995-96 disclose significant losses in the combined operating and capital funds in excess of \$98 million. Under the financial reporting prescribed by the Department, it is not possible for financial statement readers to determine the portion of these losses that are in fact amortization costs that have already been funded as capital payments in advance. Moreover, as amortization costs are reported in the capital fund, the operating fund does not reflect complete operating costs. Users of the financial statements are therefore not always able to interpret operating results correctly.

The defer and match method provides better matching

A generally accepted accounting principle, the defer and match method, would, in my opinion, address the above concerns. This method provides a consolidated view of operations, and matches the use of restricted revenues with related expenses in the period of consumption.

Knowing the intention of the contribution helps in selecting the best accounting method

A related recommendation was made in the 1994-95 annual report (page 134). Although the Department attempted to address this recommendation, the Department has not determined how it will hold health authorities responsible for funding capital asset replacements. What is needed is a decision on whether contributions were provided:

- as payments in advance to fund the consumption of capital assets acquired, in which case it is reasonable to assume that the Department will continue to fund the consumption of capital assets. Future funding of capital asset consumption could either be provided through the continuation of payments in advance or through operating grants to cover capital asset amortization together with interest on loans used to acquire replacement of capital assets. Payments in advance could then be matched with the related expense; or
- as a capital contribution with the expectation that assets acquired are expected to generate sufficient revenues for their replacement.

Health Program Administration

Physician funding systems

Recommendation No. 20

It is recommended that the Department of Health foster the implementation of physician funding systems that focus on enhancing the health of the population.

Funding methods should incorporate strategies designed to improve the health status of the population

A similar recommendation was included in the 1994-95 annual report (page 127). I reported that health services can be broadly categorized into components consisting of services designed for the prevention and treatment of illness, and palliative care. An effective health system should provide for an appropriate level of funding for each of these three components. For example, an effective health system would balance the cost of preventive services against the cost of treatment, to take advantage of any savings which could be realized through the prevention of illness.

Current fee for service systems do not focus on incentives to improve population health status

It is my view that medical services and the related payments should be linked to the achievement of health goals. If the overall health goal is to maintain or enhance public health, then payment systems should provide the necessary incentives. The current system, however, is based on physician/patient contact, and pays physicians on the basis of each service provided. Some believe that the current fee for service payment system encourages the provision of services. The fee for service payment system appears to contain no obvious strategy to promote more cost-effective services, or discourage unnecessary services. The current system provides financial incentives based on visits rather than on improving the health status of Albertans.

The payment system could be made up of several compensation methods

For the physician payment system to help promote the goal of enhancing the health of the population, payments should be targeted towards those services that are effective. An effective payment system would likely contain several compensation systems. For example, medical services which need to be promoted may be more effectively funded if based on fee for service.

Compensation systems should promote cost-effective service

It is acknowledged that there is a limit on the total amount paid to physicians, but payments to individual physicians are based on the number of services provided. Some needed services which are not in demand may require promotion. For example, services related to the prevention of illness are generally not demanded by those who can benefit from such services. On the other hand, there is high demand for palliative care for those who can benefit. To be cost-effective, different payment systems are required in the preventive, treatment and palliative care components of health care.

The Agreement with AMA provides for the development of alternative payment methods

The Department's agreement with the Alberta Medical Association in December 1995 allows the development of alternative payment methods for services as well as an incentive system to share potential savings with physicians. Alternative payment methods have not yet been developed.

Medical claims paid under the fee for service system - Background

When the Alberta Health Care Insurance Plan (Plan) was established in 1969 to provide insured medical services to Albertans, the Schedule of Medical Benefits (Schedule) issued by the College of Physicians and Surgeons was adopted as a basis for reimbursing practitioners. The Schedule consists of rates for each health service and rules to be applied for payment of health services. The Department assesses claims submitted by physicians using rules outlined in the Schedule. The criteria to be met as specified in the Schedule are incorporated in a computer system that processes medical claims. In October 1993, a new computer system was introduced to improve compliance with the Schedule.

Fee for Service Rates

Recommendation No. 21

It is recommended that the Department of Health assess whether the fee for service rates set in the Schedule of Medical Benefits represent reasonable compensation for medical services provided within the current medical practice environment.

The original fee for service rates have changed over time

The original rates in the Schedule represented the appropriate compensation for providing medical services at the time the Plan was established. Since then, the Department, in negotiation with the Alberta Medical Association (AMA), has made several changes to these rates, as well as introduced new rules for new and old services.

Fee for service rates do not necessarily reflect the value of services provided

Rate changes were based on negotiations with the AMA to consider inflation and other factors. This basis means that the rates for fee for service claims are not necessarily based on the value of services provided, using factors such as skills and time required, technology changes, capital requirements, availability of service providers, etc. To identify the relative value of each service, and to address the inequities in the values of services, the Department, in a memorandum of understanding with the AMA dated December 1993, sponsored the AMA to review the values placed on each of the procedures in the Schedule. The study of the relative value of each of the services within a specialty was completed in 1993-94 at a total cost of \$1.1 million to the Department. However, the results of the study have not been implemented as consensus cannot be reached within the health system on how to implement those results.

Rates should be based on value, need, and the current medical practice environment

Medical service rates should reflect the value and need for services. My staff noted that significant issues related to medical service rates remain outstanding as a result of changes in the environment for delivery of medical services and medical technology. For example, rules surrounding pre and post-operative care do not reflect current medical practices. The Schedule allows for 30 days of pre-operative care and 42 days of post-operative care for claims for most major surgery. However, such criteria do not reflect changes in medical practices. Therefore, excessive compensation may be provided for pre and post operative care. Moreover, the issue of compensation for services on a composite service basis (bundling) or service components of the procedures basis (unbundling) needs to be resolved in establishing the most appropriate method for compensating physicians. As well, compensation for delivery of health services within a practice group environment, where practitioners deliver medical services to an individual patient in a medical clinic as opposed to services being provided by a sole practitioner, is not adequately addressed within the existing medical service rates.

The agreement with the AMA provides an annual limit for total medical services expenditures. When the relative value of services is determined, the Department will need to review the level of existing expenditures to assess if the level is appropriate.

The Department needs to be involved in setting physician rates

The Department has also given up its right to make rate changes to the Schedule of Medical Benefits in an agreement with the AMA. The Department needs to consider how it can influence the rate setting process in order to ensure that the rates set are those that will enable the Provincial health goals to be met.

Foundations to support health facilities

It is recommended that the Department of Health, Regional Health Authorities, and health facility foundations work towards an effective reporting relationship between health facility foundations and Regional Health Authorities.

Insufficient progress has been made

A similar recommendation was made in the 1994-95 annual report (page 131). Although some action has been taken to address this recommendation, the Department has not made sufficient progress to resolve the issues within the recommendation.

Foundations are defined in legislation

Foundations are legal entities established to support the objectives of a related health facility. The legislative framework for foundations is found in the Regional Health Authorities Foundations Regulation. It allows regional health authorities to establish new foundations, subject to the Minister's approval of the by-laws, and enables foundations which existed prior to regionalization to be continued. Existing foundations are to report directly to the Minister of Health.

The Department and RHAs should define how foundations should be responsible to the RHAs

In my opinion, there is a need for the Department, in collaboration with the health authorities, to define how the continuing foundations should be responsible to Regional Health Authorities, and to their communities. The following matters should be addressed:

- the need for an adequate planning and budgeting process, including a periodic review of operating results;
- the need to determine priorities for the use of funds raised, and to resolve any conflicts between community and regional needs and;
- the requirement for coordination of fund raising activities within a region so as to maximize revenues, including the sharing of successful fund raising strategies with other foundations.

Administration of health programs by Regional Health Authorities

There has been insufficient progress

RHAs should be able to assess how physicians' services are helping to achieve regional health goals

Not all health costs are reflected in regional costs

While the Department had provided guidance that the costs incurred by the Regional Health Authorities of supporting foundations should be disclosed, the issues noted above have not yet been addressed.

It is recommended that the Department of Health, with the help of Regional Health Authorities and the physicians, consider how each Regional Health Authority can share joint responsibility with the Department for the cost and effect of all health services provided within its region.

I made a similar recommendation in the 1994-95 annual report (page 128). Although some action has been taken, the Department has not yet made sufficient progress to identify issues involved in resolving this matter.

Health authorities are expected to manage their resources effectively, and to provide services within the resources available to them. However, health authorities are responsible for only a part of the resources used to deliver health services within their regions. The cost of physician services, amounting to \$759 million in 1995-96, is not reflected in regional costs. Since physicians largely determine the kind and the number of services to be provided to patients, they, through their individual actions, effectively set treatment priorities. I acknowledge that health facilities management and hospital utilization committees also influence the provision of health services as delivered within the institutional setting. If health authorities are to be held accountable for the cost and effects of health services within their regions, they should be able to assess whether the effects of physician services, together with the related costs, are meeting the health needs of their communities. It is also reasonable to assume that they should be able to influence how physician services are delivered in the area.

I acknowledge that there are other costs, such as the cost of drugs provided through Alberta Blue Cross, that are not reflected in regional costs. The Department is also considering transferring other programs to the RHAs, such as the payment of facility fees that were made a provincial responsibility in the settlement reached with the federal government.

Current initiatives may not deal with my recommendation

The December 1995 agreement with the Alberta Medical Association provides for a tripartite committee of the Department, physician representatives and the health authorities to review various matters such as establishing processes to assist in the development of managed care proposals. The process under the agreement has just commenced. It is not clear whether this recommendation will be fully addressed through this process.

Health services provided by community, voluntary and private organizations

Recommendation No. 22

It is recommended that the Department of Health and the Regional Health Authorities work toward ensuring optimum use of significant public funds provided to community, voluntary and private organizations for the purpose of delivering regional health services.

There has been insufficient progress

A similar recommendation was made in the 1994-95 annual report (page 130). Although some action has been taken to address this recommendation, the Department has not made sufficient progress to resolve the issues related to the recommendation.

Some community, private and volunteer health organizations are not part of the RHAs

I had indicated that when the Regional Health Authorities were established, many regional health organizations were merged into the regional board-governed entity. However, some community, private and voluntary organizations providing publicly funded health services were not merged into the RHAs. These non-merged entities are funded by the RHAs and some also receive funds from Public Works, Supply and Services for capital projects.

There is a need to ensure that community, private and voluntary health organizations use public funds effectively

Community, private and voluntary organizations which deliver health services often blend special organizational objectives with the delivery of health services. Consequently, it is important that when such organizations depend on public funds for the delivery of health services, that public funds are used for authorized health services. The use of such organizations does not remove the RHAs' responsibility for delivering cost-effective health care within the region and for providing an accounting of services provided and results obtained with the use of public funds.

RHAs need to set performance expectations

For the RHAs to meet their responsibilities, they need to set performance expectations which include standards for service quality and cost benchmarks. Furthermore, reporting standards need to be established in order that information on the cost and results of health services, by region, is available regardless of who delivered the service. These standards should be incorporated in the contractual arrangements entered into between the RHAs and the non-merged entities.

While standards for private facilities, which operate mainly the long-term care facilities, can be more easily accomplished, there will be considerable challenges in developing standards for non-merged entities which operate acute care and other health services.

There are several issues that need to be considered

Issues that should be considered include:

- how should the different objectives of the non-merged entities and the RHA be reconciled when non-merged entities deliver health programs which may conflict with RHA objectives?
- should the RHAs bear the excess costs resulting from extra administrative staff, systems and other overhead for non-merged entities which could have been eliminated through a merger?
- how will the RHAs ensure that there is funding equity related to non-merged entities operating within a region, so that appropriate resources are matched with the needs of these entities?
- whether reporting standards applicable to the public sector entities should also be applied to non-merged entities supported with public funds and whether assets, liabilities, costs of service, performance information and information such as salary disclosure for non-merged entities should be reported to the Legislative Assembly?

I had reported that the Department needs to be involved since certain significant organizations which were not merged are subject to agreements entered into by the then Minister.

Some action has been taken to address these issues. The Department has encouraged the development of co-operation agreements between the RHAs and these organizations, however agreements have not yet been negotiated with all

organizations.

It is acknowledged that the cost of services provided by these organizations is reported in the financial statements of RHAs. However, the other issues that will promote the effective use of public funds have not yet been addressed.

Tendering Guidelines

The Minister requested that the Auditor General prepare tendering guidelines

At the request of the Minister of Health, my staff prepared draft guidelines to be used by health authorities contracting for services.

Decisions on contracting have to be cost-effective

Public sector organizations have an obligation to make cost-effective use of public resources provided to them. Care has to be taken to ensure that decisions on contracting services or providing services with internal resources are sound. Contracting decisions are based on several factors. These include cost-effectiveness, knowledge and capacity required to provide quality and service at acceptable standards, and the capital investment required. It is important that senior management approve the methods used to decide on how services will be acquired and provided. Organizations have to carefully consider risks associated with service acquisition options and determine the most effective strategy for managing these risks. Contracting out does not reduce the organization's obligations in ensuring that value is received and that quality services are provided.

Draft tendering guidelines have been produced

The Department of Health staff are currently reviewing these draft guidelines. As well, these draft guidelines will be discussed with health authorities to obtain their input. When sufficient input relating to the draft guidelines has been received, they will be released as a booklet.

Regional Health Authorities and Provincial Health Boards

Auditing

RHAs need to appoint their auditors

Regional health authorities, health boards and their foundations operate under the Regional Health Authorities Act, most of which was proclaimed in force on June 24, 1994. The RHAs commenced operations effective April 1, 1995. The RHA Act requires that unless the Minister appoints the Auditor General to express an opinion on the financial statements of a region, the region must appoint an auditor.

The Auditor General is required to report on the health authorities

Through the RHA Act and the Government Accountability Act, the Legislative Assembly has enacted accountability provisions for health boards and authorities. These accountability provisions are necessary because the authorities are funded by the Province. Furthermore, members of the Legislative Assembly have a responsibility to require accountability for the use of the dollars that they have provided. As a part of the legislated accountability process, I am required to report to the Legislative Assembly in respect of the health boards and authorities.

Certain health authorities have taken advantage of the public and private sector experience for audit purposes

Certain health authorities recognized my responsibility as a legislative auditor and have appointed me as the auditor of their regions in order to facilitate the legislated accountability process. I believe that this arrangement will expedite audit of the financial statements in an efficient way and also permit me to meet my reporting responsibility to the Legislature. Where I have been appointed the auditor of a health authority, I have appointed a private sector audit firm as my agent to perform the audit of the required financial statements. With respect to those authorities who have appointed their own auditor, I will need to perform such additional audit work as is necessary to meet my reporting responsibility.

The Auditor General audits 9 RHAs and 2 PHBs

I have been appointed auditor of nine regional health authorities and two Provincial health boards. These organizations receive 85% of the Alberta Health grant payments to health authorities. I believe that these health authorities have benefited from the public sector expertise of my staff, and I believe that my Office has made valuable contributions to assist these health authorities.

Section 19(3.1) Report

*Auditor General's
responsibilities for
RHAs/PHBs*

Section 19(3.1) of the Auditor General Act requires me to report on the results of my examinations of regional health authorities. As indicated above, I have been appointed auditor of 9 of 17 regional health authorities (RHAs) and both the provincial health boards (PHBs). Where I am not the auditor of the RHAs, the Auditor General Act requires the auditors to provide me with a copy of the audited financial statements and management letters containing observations arising from the audit.

My section 19(3.1) report will be issued in due course.

Capital Health Authority
year ended March 31, 1996
Budget system

A review of the Authority's budgeting system was completed at the request of the Authority. My conclusions were reported to the Authority in a management letter dated April 22, 1996. The Authority subsequently made this letter public.

Scope of work

The review included an examination of:

- the direction, expectations and objectives set for management by the Board, and how these are addressed in budget preparation;
- the methodology and assumptions used for budget preparation;
- the information systems used to monitor progress during the year towards achieving budget targets;
- the information provided to the Board on the achievement of objectives set by the Board; and
- the progress in achieving the plan approved in the 1995-96 budget, including performance targets and savings.

*Budgetary systems are
not yet sufficiently
developed*

My review of the Authority's budgeting system revealed that the system is not yet sufficiently developed to meet the needs of a complex organization with an annual operating budget of approximately \$800 million. The existing systems exposed the Authority to risks that budget targets may not be met because not all of the information required to manage the Authority's operations is available. The systems supporting budget preparation, performance monitoring and reporting need to be improved if the Authority is to build on

its achievements to date. I acknowledged that since the organization is only one year old, implementing the new budgetary systems will take time.

Systems do not provide information on program costs

The Authority inherited a system that does not provide adequate information on the costs of programs. Presently, it is difficult to predict the effect on costs of different activity levels or to compare the costs of similar services between sites, or to comparable services offered elsewhere. This has also made it difficult to assess whether decisions on program changes have been cost-effective and whether different programs are being appropriately funded. Costs associated with teaching, excess capacity or under-utilized programs are difficult to identify.

Several recommendations were made to improve the budgetary system

In a management letter to the Authority, I made the following recommendations:

- It is recommended that the Authority improve its budgetary system by relating costs to outputs and activity levels.
- It is recommended that to recognize budget risks the Authority include a more realistic allowance for contingencies in its 1996-97 budget. Further, the Authority should improve its existing monitoring and reporting systems to assist management to achieve the 1996-97 budgetary targets.
- It is recommended that the Authority implement a plan for funding its accumulated deficit.
- It is recommended that the Authority clarify responsibilities for meeting its performance targets.

The Authority was commended for its achievements during restructuring

I commended the Authority for its achievements during the restructuring of the health system. The Authority's Board and management had to effect a major restructuring of a complex health system in a short period of time. The requirement to reduce expenditures and maintain service levels had to be accomplished with systems which, while typical of other health systems, did not provide adequate information to support decisions on cost-effectiveness. Management could not draw on the experiences of other jurisdictions since none had attempted a comparable restructuring within a similar time frame. The restructuring placed unprecedented pressure on the Board, management, staff and health care providers.

I believe that it is important to note that I have not reviewed the budgetary systems of other regional health authorities, and accordingly cannot comment as to how their management information systems compare to those of the Authority.

Calgary Regional Health Authority year ended March 31, 1996

Acquiring laundry services

A review of the system used by the Authority to acquire laundry services was completed at the request of the Authority. My conclusions were reported to the Authority in a management letter dated December 7, 1995. The Authority subsequently made this letter public.

Scope of audit work

My review included an examination of :

- the financial information used to determine savings arising from contracting for laundry services;
- the process used to evaluate contract proposals for laundry services; and
- the guidelines for determining and evaluating potential conflicts of interest relating to contracting for laundry services.

An Invitation to Bid was issued

The Authority issued an "Invitation to Bid" for laundry services. This is different from a tendering process. Under a tendering process, detailed specifications are provided and usually the lowest bidder is awarded the contract. Under an Invitation to Bid, bidders are expected to develop a detailed proposal to meet specified objectives. The Authority then has to assess the proposals based on pre-defined criteria, costs and benefits. Predefined criteria would include quality and service standards.

Five proposals met the screening criteria

On July 4, 1995, the Authority advertised for private sector contractors to apply to provide laundry services in the region. Contractors were required to provide information to qualify to receive the Invitation to Bid documents. Of the nine contractors who applied, five met the bid requirements. One private sector contractor, who met the screening criteria, did not submit a bid.

*Internal proposals were
pre-qualified*

The internal proposals (from unions and laundry management) were deemed to be pre-qualified, and did not go through the screening process applied to the private sector contractors.

*Results of the
examination*

In a management letter to the Authority, I reported that my examination:

- concluded that cost savings could be obtained by contracting laundry services from third parties;
- concluded that internal proposals did not meet the requirements set out in the Invitation to Bid documents and did not produce cost-savings commensurate with the Authority accepting the risks associated with operating the laundry facilities;
- did not reveal any information that would lead me to believe that there was any conflict of interest existing on the part of the Authority's Board or management in the process of contracting for laundry services; and
- revealed that the Authority needs to refine its processes for managing the contracting of laundry services.

Therefore I recommended that the Authority consider issuing a new Invitation to Bid for laundry services.

Entities Audited

Financial statement audits of the following were completed for the year ended March 31, 1996:

Regional Health Authorities:

Capital Health Authority
 Calgary Regional Health Authority
 Chinook Regional Health Authority
 East Central Regional Health Authority 7
 Headwaters Health Authority
 Northern Lights Regional Health Authority
 Peace Regional Health Authority
 Regional Health Authority 5
 WestView Regional Health Authority

Provincial Health Boards:

Alberta Cancer Board
 Alberta Cancer Foundation
 Provincial Mental Health Board

Guidance to reader

The Ministry of Justice is responsible for administering the justice system within the Province in a fair and effective manner. It is working to develop ways to improve the efficiency of law enforcement, policing and correctional programs and services. The Department of Justice's expenditures for 1995-96 were \$341 million.

The Ministry has developed goals, strategies and performance measures to monitor progress in achieving results. It is attempting to streamline the delivery of certain services within correctional programs. Court services are being consolidated in several locations to become more cost effective without sacrificing access to justice.

My staff will continue to work with the Ministry to identify potential enhancements in performance reporting.

**Department of Justice
year ended March 31, 1996****Fines collection activities**

Last year, I recommended that the Department supply the appropriate authorities with the costs and results of its fines collection activities

Progress towards implementation is being made

In the 1994-95 annual report (page 141), it was recommended that the Department of Justice determine the costs and results of its fines collection activities to provide this information to the appropriate authorities. This recommendation was based on observations that the system used by the Department to record and manage fines was not capable of generating the information needed for proper performance reporting.

This recommendation was accepted by the Department. A task group was formed to review the present system, and to determine how reporting of the costs and results of fines collections can be improved. Some improvements have been made in the reporting of fines collections, and the task group is working to better identify fines by source, and to link revenues collected to collection costs. My staff will continue to monitor the progress in implementing this recommendation.



Guidance to reader

The Ministry of Labour is responsible for programs protecting public safety. This includes the creation and application of various building and other safety codes, promoting workplace health and safety, fostering responsible labour relations, and protecting employee rights.

As part of restructuring, the Ministry has moved, over a number of years, from being the primary provider of services, to providing some of these services through accredited agencies and organizations called Delegated Administrative Organizations. These entities are required to be accountable to the Minister. Auditing the performance of these entities is one of the key tools that the Ministry uses to monitor its success in meeting its objectives. Future examinations by my Office will focus in this area, and in the area of performance reporting.

In 1995-96, total expenditures of the Department amounted to \$35 million, and it received revenues of \$15 million.

**Department of Labour
year ended March 31, 1996**

There were no matters reported to management at the end of this year's annual financial audit.

Other entities

A financial audit was also completed for the **Joint Standards Directorate** for the year ended March 31, 1996.

A financial audit for **The Workers' Compensation Board** for the year ended December 31, 1995 was completed under my direction.

Guidance to reader

The Legislative Assembly has six legislative Offices whose expenses in 1995-96 were:

Support to the Legislative Assembly	\$19.7 million
Office of the Auditor General	\$8.9 million
Office of the Ombudsman	\$1.0 million
Office of the Chief Electoral Officer	\$0.6 million
Office of the Ethics Commissioner	\$0.2 million
Office of the Information and Privacy Commissioner	\$0.4 million

These Offices do not manage significant revenue systems.

The Auditor General had no matters to report to management at the end of the annual financial audits of the other Offices.

The financial statements of the Office of the Auditor General for the year ended March 31, 1996, were audited by a firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statements are included in this report starting on page 225.

Salary and benefits

Disclosure of salary costs improves accountability for the use of public money, and is consistent with the position of the government that the public should have access to information on how public money is utilized.

Although the Offices of the Legislative Assembly are not required by legislation to disclose salary and benefits, I am pleased to report that the following offices have voluntarily disclosed this information:

Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Information and Privacy Commissioner
Office of the Auditor General

The following Legislative Assembly Offices have not disclosed salary and benefits:

Office of the Ombudsman
Support to the Legislative Assembly



Guidance to reader

The mandate of the Department of Municipal Affairs is to facilitate the development of good local government, to ensure that those in need have access to basic shelter, to ensure registration and licensing services meet public needs, and to encourage a fair marketplace. The Department continues to make the transition from being a service provider to being a service facilitator by introducing private sector entities and other local public entities to directly provide services. During this transition and after this transition is completed, a major challenge to the Department is to ensure that it receives appropriate, timely information to allow for effective monitoring of those direct service providers.

With 1995-96 actual expenses of \$377 million, the Department works to accomplish its mandate through four core businesses:

Local Government Services

This business area provides advisory and information services to local governments. To be successful, this business area must effectively advise local governments on ways to improve municipal administration. The need for efficient, effective local governments has increased as Provincial funding for those governments has been reduced. Local Government Services assists local governments with this transition from reliance on government grants to reliance on their own revenue generating abilities to fund their needs.

Housing

The mandate for this business area is accomplished by the Department and the Alberta Social Housing Corporation, discussed below.

Registry Services

This business area monitors the provision of registry and licensing services by private interests to the public. With the transition of service provision from the government to the private sector, the role of Registry Services has changed significantly. To be successful, Registry Services must ensure that services are provided at the lowest possible public cost, and that services are easily accessible.

Consumer Services

Consumer Services works to assist consumers having credit difficulties to reduce their debt load. This area also investigates customer complaints, and reviews legislation governing many business transactions. To be successful, Consumer Services must ensure that consumers with debt problems are able to manage their finances appropriately to avoid bankruptcy. Consumer Services also must ensure that significant complaints are resolved in a manner that supports a fair marketplace, and that legislation affecting the marketplace also supports a fair marketplace.

Department of Municipal Affairs, and Alberta Social Housing Corporation year ended March 31, 1996

Background

The Minister of Municipal Affairs is responsible for delivering the government's social housing programs. These programs include Seniors' Housing, Community Housing, Rent Supplement Housing, Rural and Native Housing and Special Needs Housing. The Ministry provides subsidized accommodation to Albertans who meet eligibility criteria defined in the Alberta Housing Act and regulations. The programs are delivered by the Alberta Social Housing Corporation with the support of 152 management bodies established under the Act. The Corporation and the management bodies are accountable to the Minister.

To deliver these programs, the Corporation owns housing properties with a historical cost of \$1.3 billion and a net book value of \$980 million. The properties consist of approximately 1,250 multi-unit housing projects with 24,000 individual units. In addition, under the rent supplement program the Ministry provides subsidized housing to Albertans by making partial rent payments to private landlords to supplement the reduced rents paid by eligible tenants. Including amortization, debt servicing costs and gross operating costs, social housing program expenditures for 1995-96 amounted to \$297 million.

The social housing goals of the Ministry include ensuring that social housing inventory is appropriate to the communities' needs and is maintained to a proper standard, while minimizing delivery and administration costs.

Scope of work

In addition to the annual financial audit, the following work was completed:

- An examination of the management and accounting controls used in delivering social housing programs and in safeguarding the Ministry's assets.
- Audits of the 1994-95 cost-sharing claims under the National Housing Act (Canada).

The work has resulted in recommendations on:

- maintenance of housing assets,
- monitoring of management bodies,
- cost-effectiveness of housing programs,
- accounting for capital assets, and
- deficiencies in the Corporation's financial accounting systems.

**Maintenance of housing
assets**

It is recommended that the Ministry of Municipal Affairs determine the condition of its social housing program properties to assess the appropriateness of the maintenance work being performed by management bodies.

There is a lack of information on the condition of housing properties

The Ministry does not have sufficient current information on the condition of most of its social housing program properties to determine whether appropriate maintenance work is being performed. Management needs such information for cost control and decision making. Appropriate maintenance of the building structure is necessary to maximize the life of the assets and to ensure the health and safety of tenants which may be put at risk if building conditions deteriorate. Appropriate maintenance should also lower property operating costs over the long term.

Management bodies should submit property condition and inspection reports

Most of the Ministry's properties are operated by management bodies. The regulations under the Act require each management body to submit a property condition and inspection report within 90 days of the Ministerial Order establishing the management body. These reports are required to provide information on electrical, heating, plumbing and structural conditions, to assist management in establishing short and long-term maintenance plans. These reports should provide information on whether additional maintenance work is required, and allow management to establish priorities for this work.

The Ministry has not determined its reporting requirements

Approximately half of the 152 management bodies have been administering social housing projects for almost two years. However, no property condition and inspection reports have been submitted by any of them because the Ministry has not determined the extent of the inspection procedures and the report format.

Maintenance costs need to be reviewed

It is possible that some management bodies could be incurring costs on more maintenance than is necessary, while others may not be adequately maintaining properties. Management bodies submit annual budgets which show planned maintenance expenditures. Our review indicates that approved budgets for maintenance expenditures for 1995-96 averaged 11% less than the Ministry's benchmark. And, actual maintenance costs averaged 33% less than this benchmark. The benchmarks may be high and unreliable because they are based on the maintenance costs incurred by the Corporation and its agents in the past.

Property condition information, coupled with detailed variance analysis, will help in assessing adequacy of maintenance work

We believe that current information on the condition of the properties, combined with an analysis and understanding of expenditures incurred on maintenance, is necessary to assess the appropriateness of the maintenance work being done to preserve the Ministry's investment in properties.

Monitoring of management bodies

Recommendation No. 23

It is recommended that the Ministry of Municipal Affairs improve the monitoring of management bodies and their setting of expectations in business plans to allow comparison of actual results to stated expectations.

Management bodies, under the Alberta Housing Act and regulations, have been provided autonomy and authority to administer housing projects to help achieve the Ministry's overall social housing goals.

Legislation requires three-year business plans

Legislation requires management bodies to prepare three-year business plans and prescribes the information to be included in the business plans. The requirements include short and long-term property and building maintenance plans and estimates of projected revenues, operating expenditures, and capital expenditures.

Management bodies should set measurable expectations that are later compared to actual results

Currently, management bodies are not required to include measurable expectations in their business plans that are submitted to the Ministry. Since comparing actual results to plans is an effective monitoring technique, the Ministry should be provided with plans that contain measurable expectations. Also, regular timely reports are required from management bodies on their operations including comparisons of actual results to stated expectations and explanations for significant variances.

The Ministry's goals should be the basis for setting expectations for management bodies

The Ministry's own goals, disclosed in its three-year business plan, could provide a good starting point for the management bodies in establishing their expectations and thereby also ensure goal congruency. An example of a Ministry goal is the targeting of housing assistance to Albertans in greatest need as measured by the percentage of housing assistance provided to low-income, high-need clients. To achieve this goal requires management bodies to have similar measurable targets against which their performance can be evaluated.

Delays were noted in the receipt of reports from management bodies

My staff noted that reports required from management bodies were not being submitted promptly. For example, at July 31, 1996, only 67% of management bodies had submitted their three-year business plans, although these are required by regulation. Also, semi-annual vacancy reports, requested by the Minister, were not submitted on a timely basis. The absence of such information hampers management's ability to make sound decisions about the Ministry's social housing programs.

Inadequate variance review is done on management bodies' expenditures

The Ministry compares the actual operating costs of management bodies to their budgets on a line-by-line basis. However, Ministry staff do not follow up variances unless total actual costs exceed total budgets. We were informed that follow up work will improve because, in the initial years, the focus has been on establishing management bodies. The focus will now shift to advising and monitoring management bodies.

Delays were also noted in the operational reviews of management bodies

My staff also noted that, although most management bodies have been in existence for more than one year, initial operational reviews of only 82% of them had been completed as of July 31, 1996. Also, the program of operational reviews, on a three-year cyclical basis, to inspect the financial and administrative condition of management bodies has not yet started. The purpose of these reviews includes reviewing the maintenance practices of management bodies, checking on compliance with requirements of the Alberta Housing Act and Regulations, and discussing concerns raised by auditors.

Cost-effectiveness of housing programs

Recommendation No. 24

It is recommended that the Ministry of Municipal Affairs determine the total costs per unit of its social housing properties to enable it to manage its costs.

Preliminary unit costing done by the Ministry does not account for total costs

The Ministry has not determined the total costs per unit of its social housing properties. The Ministry has done some per unit cost calculations which show that its costs are comparable with privately owned units. However, this analysis is unreliable because it does not consider the total costs incurred in providing Provincially owned housing units to Albertans. The Ministry's analysis only considers the net cost of the units to the Alberta government, as the costs have been reduced by the rents paid by tenants and the contributions made by the federal government through cost-sharing. I believe it is necessary to include all the costs if valid comparisons are to be made with the private sector.

Our estimates of total costs per unit of owned housing

We estimate that the average monthly costs per housing unit owned by the Ministry range from \$637 for the Rural Emergency Housing program to \$901 for the Rural and Native Housing program. These costs are significantly higher than the rents of \$500 that are being charged by the private sector. The Ministry should use the information on the costs of its individual projects to lower its operating costs.

Because the operating costs of these units are cost-shared with the federal government, the Ministry may need the cooperation of the federal government to reduce its costs.

**Capitalization of housing
assets**

It is recommended that the Ministry of Municipal Affairs ensure that management bodies record housing capital assets correctly in their financial statements.

Housing capital assets have been transferred to management bodies

During the year, the Alberta Social Housing Corporation transferred the following housing capital assets to management bodies:

- its investment in the betterment of lodges owned by Foundations, with a net book value of approximately \$18.2 million, and
- the contents of housing projects with a net book value of approximately \$5.2 million.

Transferred betterment costs have not been recorded correctly by management bodies

These transfers should have been recorded by management bodies at fair values as at the transfer dates. However, we noted that the lodge betterment costs were not capitalized by some management bodies.

Transferred costs of contents have not been capitalized by management bodies

Also, in all instances, the contents of housing projects were recorded only at \$1. We were advised that the Ministry had asked management bodies to do this because of its capitalization threshold of \$5,000. We believe that it is inappropriate to apply this threshold to a group of assets with a net book value of \$5.2 million. These assets should therefore be recorded as capital assets.

Management bodies are expensing acquisitions of housing capital assets

We also noted that some management bodies have inappropriate accounting policies for capital asset acquisitions. Their financial statements disclose that they expense certain housing assets acquired during the year instead of capitalizing and amortizing them.

There is a need for management bodies to record capital assets correctly

It is important that management bodies record their capital assets correctly in their financial records and statements. Otherwise their assets could be seriously understated and their balance sheets would not present fairly their financial positions as at the period end dates. This would result in the operating costs of management bodies being understated.

Management bodies should adopt appropriate capital asset accounting policies

The Ministry should ask management bodies to follow generally accepted accounting principles for the capitalization and amortization of housing capital assets. Also, management bodies should be asked to make retroactive adjustments for significant amounts that should have been capitalized.

I believe these matters should be attended to if the Ministry is to exercise adequate governance over management bodies.

Corporation's financial accounting systems

It is recommended that the Alberta Social Housing Corporation improve the accuracy of its financial statements, and reduce the manual effort and costs of consolidating the information in its many accounting sub-systems.

The systems used to update the general ledger and prepare the financial statements of the Corporation are very inefficient.

Information is not received promptly from management bodies to allow the Corporation to update its draft financial statements with current information

The Corporation does not promptly receive information regarding the operations of its social housing projects from the management bodies that administer them. Audit adjustments for substantial amounts were necessary to the Corporation's draft financial statements and included:

Audit adjustment of \$2.6 million was required due to delayed reports

- Recording the actual operating results of most of the Corporation's housing units. These were reported in management bodies' financial statements received after the Corporation's draft financial statements had been prepared. This adjustment increased the Corporation's revenues by \$2.6 million. The Corporation had used budget information for these management bodies in its draft financial statements. To avoid this in future, the Ministry agrees that management bodies should be required to submit their audited financial statements within the 90 day deadline specified in Section 15(2) of the Alberta Housing Act.

Audit adjustment of \$1.4 million was required for proper accrual accounting

- Recording the operating results of management bodies for the period from January 1, 1996 to March 31, 1996. This was necessary because all revenues and expenses should be recorded on the accrual basis of accounting. The adjusting entry increasing recoveries from management bodies and accounts receivable by \$1.4 million was based on budgets. To avoid this in future, the Ministry should enforce Section 4.7 of its Management Body Handbook, which requires management bodies to submit quarterly financial reports.
- Recording an increase of \$1.2 million in the allowance for losses on land held for sale.

The costs reported in the Corporation's financial statements are incomplete

Also, the Corporation does not disclose all the costs associated with its operations in its financial statements. Significant administration costs of the Corporation are incurred and borne by the General Revenue Fund of the Province of Alberta. The costs relating to salaries and benefits have been quantified at \$10.85 million and disclosed in a note to the financial statements. However, the costs relating to office rents, utilities, telephones, etc., which could also be significant, have not been quantified or disclosed in the Corporation's financial statements. We believe that significant administration costs of the Corporation should be quantified and disclosed as expenses in its statement of revenue and expenditure. We also believe that it is not appropriate to disclose such significant costs only in the notes to the financial statements.

Current systems require inordinate clerical effort with increased risk of errors

Finally, the Corporation uses numerous sub-systems to record and administer its assets, liabilities and transactions. None of these systems are integrated with the general ledger. Monthly totals and adjustments from these systems are entered in the general ledger with significant clerical effort being expended in transferring, checking and reconciling data, e.g., significant amounts of data are recorded on spreadsheets prior to updating the general ledger, and there are delays in the preparation and submission of cost-sharing claims to the federal government because sharable costs are not identified at the time expenditures are recorded. This clerical work results in a high risk of errors and of inaccurate accounting entries being made.

Excessive rent subsidies

*Our recommendation
from last year has not
been fully implemented*

In the 1994-95 annual report (page 149), it was recommended that the Alberta Social Housing Corporation procure rental accommodation for its Rent Supplement program at rates that do not significantly exceed average market rental rates. This year, my staff again found several rental units for which the rents exceeded the average market rates.

*There are reasons for
delays in implementing
the recommendation*

I am pleased to report that the Corporation agrees with the recommendation and has made improvements in identifying and stopping the subsidization of above average market rents. However, the Corporation finds that it is bound by a number of multi-year contracts with landlords, and is also encountering objections and resistance in moving some handicapped tenants from expensive accommodation because the additional stress caused by the move could be detrimental to their health.

I will continue to monitor the Corporation's progress in reducing the numbers of rental units with above average market rental rates.

Other entities

Financial audits of the following were also completed:

Alberta Educational Communications Corporation - for the five months ended August 31, 1995 and for the year ended March 31, 1996

Alberta Planning Fund - for the period from April 1, 1995 to the date of dissolution September 1, 1995

Improvement Districts' Trust Account - year ended December 31, 1995

Special Areas Trust Account - year ended December 31, 1995



Guidance to reader

The Ministry of Public Works, Supply and Services is a central agency responsible for providing capital infrastructure, accommodation, information technology, procurement and disposal, air transportation, and records management services to support government program delivery. In 1995-96, the expenditures of the Ministry were approximately \$500 million. At March 31, 1996, the approximate cost and net book value after amortization of the capital assets used by the Ministry in providing its services were:

	<u>Cost</u>	<u>Net Book Value</u>
Buildings	\$1.8 billion	\$1.2 billion
Land	\$550 million	\$550 million
Equipment and other	\$100 million	\$50 million

The major issues facing the Ministry are:

- as a central supply agency, the outputs of the Ministry are essentially inputs to other Ministries in producing the ultimate outputs of the government. As such, the Ministry must be competitive with the private sector in the value of its services and its responsiveness to the needs of government users.
- it must continually re-examine its role and mandate in the context of government restructuring initiatives. This includes issues such as whether it is cost-effective for the Ministry to have central responsibility for providing a service or whether responsibility should be decentralized to the users. Where services are decentralized, the role of the Ministry as co-ordinator or standard setter needs to be determined.

In the 1993-94 annual report (pages 101-106) and 1994-95 annual report (pages 153-157), we made recommendations to the Ministry on its accommodation and telecommunications services. These areas were the subject of follow-up work by our Office in 1995-96.

Department of Public Works, Supply and Services year ended March 31, 1996

Accommodation

Background

The Department of Public Works, Supply and Services is responsible for providing accommodation services to the government. Our review focused primarily on office space.

The Department owns and leases office space

At March 31, 1996, the Department owned buildings containing approximately 415,000 m² of usable office space. The Department also paid lease charges of approximately \$79 million in 1995-96 for an additional 400,000 m² of usable office space.

In many cases, the costs of surplus space may be difficult to recover

As a result of government downsizing and restructuring, surplus space has been created. In some instances, this space lies vacant. More commonly, surplus space exists in areas which are occupied, but under-utilized as a result of staff reductions. The Department needs to identify opportunities to relocate and consolidate government staff to capture under-utilized space for lease termination, sublease or sale.

Accommodation costs

It is recommended that the Department of Public Works, Supply and Services advise users of the cost of the accommodation services it provides.

A similar recommendation was made in the 1993-94 annual report (page 102). We are pleased the Department agreed with the recommendation. However, the Department's actions to date have not yet resolved my concerns.

The Department needs to provide cost reports on a timely basis

In response to our 1993-94 recommendation, the Department undertook to provide users with accommodation cost information for 1995-96. However, cost reports were not produced in time to be useful in preparing users' 1995-96 financial statements.

Subleasing and sale of surplus space

In the 1994-95 annual report (page 154), it was recommended that the Department continue to reduce the cost of holding surplus space. I am pleased the Department agreed with the recommendation and has taken actions to address observations made in our report.

The Department reduced office space in 1995-96

In 1995-96, the Department completed various relocation projects and lease terminations resulting in a net reduction of 37,000 m² of leased office space, representing cost savings of \$7.7 million per year. The Department also sold approximately 6,000 m² of owned office space.

Demand for subleased office space is low

Where it is not possible to sell a building or terminate a lease early, subleasing may provide the greatest potential for cost recovery. In 1995-96, subleases for approximately 3,800 m² of space were successfully negotiated, resulting in recoveries of \$109,500. However, total subleased space fell to 5,500 m² at March 31, 1996, from 13,300 m² a year earlier. Management indicates the current demand for subleased office space has improved but is still low.

Telecommunications

Background

The Department of Public Works, Supply and Services has an overall responsibility to provide cost-effective telecommunications services to the government. In 1995-96, the Department spent approximately \$40 million for providing and managing the government voice, data and mobile radio telecommunications networks. The networks consist of owned and leased equipment connected to communication lines leased from private sector providers such as AGT. The networks allow users to make long-distance telephone and data transmission calls without incurring toll charges.

In the 1994-95 annual report (page 156), it was recommended that the Department continue to help Provincial departments and agencies reduce long distance telephone charges.

The Department's implementation of our recommendations has resulted in significant savings to the Province

I am pleased the Department agreed with the recommendation and has taken the following actions to address observations made in our report:

- The government's telephone network has been upgraded to automatically direct outgoing long-distance calls over the network without the need for manually dialed access codes. The Department's analysis of the calling patterns of government users indicates this initiative will result in savings of approximately \$744,000 per year. Significant additional savings in staff time will be realized from the

increased speed and convenience of the network. The upgrade was made at a one-time cost of \$323,000.

This project was a joint effort of the Department and the Public Affairs Bureau and I commend the Bureau for its assistance and cooperation in this regard.

- All regional health authorities (RHAs) are now able to participate in the government bulk discount package for long-distance phone calls, which will result in estimated savings of approximately 37%, or \$70,000 per year. The Department has also initiated pilot projects to extend data transmission services to some RHAs and school divisions. Three RHAs, the Alberta Cancer Board, and one school division are now receiving certain AGNPAC services, with discussions and proposals from ten other health authorities and boards being evaluated.

Extending government data transmission services to funded organizations will create significant savings

Additional opportunities for significant savings in telecommunications costs exist. The area of greatest potential overall savings lies in the provision of data transmission services to Provincially funded organizations including RHAs, school boards, and post secondary institutions. Proper planning will be critical in determining the requirements of these extended stakeholders and ensuring sufficient funds are budgeted for connection to the network and expansion of network capacity.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1996.

Department of Transportation and Utilities
year ended March 31, 1996**Guidance to reader**

The Province has approximately 13,800 kilometers of primary highways, 15,000 kilometers of secondary highways and 130,000 kilometers of local roads. For the primary highways, the Department of Transportation and Utilities is directly responsible for construction, maintenance, motor transport safety services, and dangerous goods control. The exception is primary highways through most cities, where the Department provides grants for their improvement. The Department also provides financial assistance for the construction of secondary highways and local roads in rural areas. The Department supports utility services such as natural gas and electrical installations in rural areas. It is also responsible for disaster recovery programs. The Department's expenses for 1995-96 were \$790 million.

The Department's three-year business plan includes strategies to outsource major operations such as the maintenance, design, and construction supervision of highway infrastructure. These changes in the way of doing business oblige the Department to monitor the performance of those contracted to perform the work. The Department's Transportation Revolving Fund is in the process of discontinuing its fleet, shop and stores operations as a result of the decision to privatize maintenance and require contractors to supply their own construction materials. The Department's objective for outsourcing and downsizing is to generate cost savings that can be directed towards additional highway infrastructure construction and improvements.

The audit observations and recommendations that follow identify improvements that can be made to the process to select consulting engineers for major construction projects and to the system to account for commitments.

Scope of audit work

In addition to the annual financial audit, we completed an examination of the process to select consulting engineers for construction projects.

**Consulting engineer firm
selection****Recommendation No. 25**

It is recommended that the Department of Transportation and Utilities ensure that its method of selecting consulting engineers for major construction projects is cost-effective.

During the year, the Department committed to pay engineer consulting firms in excess of \$10 million to design highway infrastructure and administer approximately 70 major construction projects.

The number of firms that can submit proposals on an engineering project is limited

The Department developed a two-step process to select a firm for each construction project. The first step was the annual pre-qualification of over 40 engineer consulting firms based on their expertise. The second step was to invite a limited number, usually three, of pre-qualified firms to submit proposals for each construction project.

Limiting the number of firms invited to bid reduces the possibility of obtaining the most cost-effective service

The Department needs to assess the cost-effectiveness of this selection process. Limiting the number of pre-qualified consulting engineer firms that can submit proposals reduces the possibility of obtaining the most cost-effective service. Additionally, the Department is incurring costs to determine which pre-qualified firms should be invited to submit proposals. For example, the Department needs to monitor the availability of firms' experienced staff to determine if an invitation to submit a proposal should be issued.

Commitments

It is recommended that the Department of Transportation and Utilities improve its system of accounting for commitments in order to properly forecast expenditure requirements.

Commitments are established annually

Commitments are obligations arising from existing contracts or agreements that will become an actual liability when the conditions have been fulfilled. Commitment information is obtained annually from the Department's regional offices and branches. The Province's consolidated financial statements disclose the amount of commitments.

All commitments were not identified

At March 31, 1996, the Department's commitments amounted to approximately \$330 million. A significant amount of commitments, approximately \$122 million, was not identified as the Department's system for reporting its commitments is inadequate. The original amount submitted for inclusion in the Province's consolidated financial statements was materially understated and required adjustment.

Recording commitments as they are incurred establishes an accurate record of budgetary amounts available for other purposes

The Department needs a system that will provide regular and accurate information on commitments. Such a system would assist the Department in budgetary control by providing information on amounts which have been contractually committed for existing projects. This information would be useful in estimating the Department's annual expenditures.

Grant administration

In the 1994-95 annual report (page 159), it was recommended that the Department require municipalities that receive grant payments for construction and maintenance of roads to demonstrate the effectiveness of use of public funds.

Performance measures are being developed to enable reporting on the effectiveness of grant funding

The Department has proposed performance measures that will enable the municipalities and the Department to report on the results achieved from grant funding. For example, the Alberta Cities Transportation Partnership grant program will require municipalities to report on congestion levels, as well as collision rates, on the infrastructure funded by the Province.

Performance measures will change if the purpose of the funding changes

It is my understanding that the Department is also reviewing the objectives of its grant programs. The Department, as well as the municipalities, would benefit from information that relates funding with performance expected.

Disaster assistance - receivables

It is recommended that the Department of Transportation and Utilities take action to recover approximately \$11 million in disaster assistance that has been receivable from the federal government for several years.

In the 1994-95 annual report (page 160), it was recommended that the Department finalize its claim for disaster assistance from the federal government relating to the 1987 tornado.

The 1987 claim has not been finalized

I understand that the Department has not yet finalized its claim to the federal government for the 1987 tornado as the federal government has requested evidence for certain costs paid by the Province. The Department has a receivable of approximately \$11 million from the federal government for the 1988 Slave Lake and 1990 Western Alberta floods which will not be paid until the claim for the 1987 tornado is finalized.

Gravel and other inventories

In the 1994-95 annual report (page 161), it was recommended that the Department of Transportation and Utilities quantify its inventories and identify those that are surplus to its needs.

The Department now knows the amount of surplus inventory

As of March 31, 1996, the Department had quantified its inventory and identified inventory that was surplus to the Department's needs. The Department also intends to perform a comprehensive review of the multiple systems used to track gravel inventory with a view of streamlining the systems to provide better management information.

Land held for disposal

In the 1994-95 annual report (page 162), it was recommended that the Department accelerate the identification of land surplus to its needs and develop a plan to dispose of such land in an orderly way.

The Department intends to identify its surplus land holdings in the next three years

The Department has a three-year plan, effective May 1, 1996, to perform a comprehensive review of this land to identify surplus properties.

My staff will review the progress in future audits.

Other entities

Financial audits of the following were also completed:

Gas Alberta Operating Fund, and
Transportation Revolving Fund for the year ended
 March 31, 1996, and
Alberta Resources Railway Corporation for the year
 ended December 31, 1995.

Guidance to reader

The Ministry provides financial and administrative services within government and externally through the Treasury Department and a number of Provincial agencies such as the Alberta Treasury Branches, Alberta Municipal Financing Corporation, Alberta Pensions Administration Corporation, and the Credit Union Deposit Guarantee Corporation. In addition, the Department is responsible for the administration of a number of funds, the most significant of which is the Alberta Heritage Savings Trust Fund.

There are a number of risks which the Ministry must manage effectively in order for it to be successful. The risks can be directly related to the following core functions which are set out in the Ministry's 1996-99 business plan:

- facilitate sound business planning and fiscal decisions by the Provincial Treasurer and Treasury Board.
- improve the accountability of Ministries for their financial and business decisions and reporting of financial information.
- manage the Province's assets and liabilities effectively.
- promote a competitive, simple and efficient tax system and collects the tax revenue due to the Province.
- maintain an efficient, fair and competitive capital market and regulatory environment for financial institutions.
- provide effective financial services.

The risks related to the above functions are being managed in a period of change. Over the last several years, the Department's role has changed in that it now exercises less direct control over the activities of other departments and agencies. These organizations have been delegated greater authority to make decisions within a framework which correspondingly requires greater accountability for results.

The Province's consolidated financial statements summarize and compare to the consolidated budget, the actual financial results of the government. Therefore, they are a key accountability report in that they report actual financial results against what was expected. My report contains a number of observations and recommendations to improve accounting policies and presentation in the consolidated financial statements (beginning on page 173). In addition, I acknowledge the progress made to record capital assets (page 176).

I believe that the government's annual budget process can be enhanced. My report comments on the benefits which can be derived from quarterly budgets (page 172). I also comment on the difficulties experienced by certain departments with spending limits established in the budget (page 187), and the importance of ministry plans containing information of down side risk arising from proposed new capital expenditures and programs (page 189).

The Ministry is responsible for the management of approximately \$24 billion of investments. Approximately \$14 billion relates to the assets held by various pension plans and The Workers' Compensation Board, and the balance of \$10 billion can be attributed to various funds administered by the Department. All of the investments are managed by the Department's Investment Management Division. My report contains a number of recommendations to the Department which will help it manage the risks associated with investments (beginning on page 190).

My report comments on the status of the work being done to review the number and need for many of the government's boards and agencies. I believe opportunities exist to merge the operations of many of these organizations to reduce costs. In particular, I again recommend that the Department reassess the need for revolving funds (page 181).

With the increased delegation of responsibilities from the Treasury Department to other departments and the devolution of assets and services to the private sector, I have included comments about the changing role of the Treasury Department (page 169).

I have also repeated a recommendation to the Alberta Pensions Administration Corporation to improve the quality of the information provided to employers participating in the pension plans to help them record and manage their pension liabilities more effectively (page 184).

Legislation establishing a Board of Directors for Alberta Treasury Branches (ATB) was proclaimed in June 1996. The change in governance followed recommendations made by my Office. As part of its overall stewardship responsibility, the new Board will assume responsibility for ensuring that systems are in place to manage the risks that ATB faces. To assist ATB focus on areas needing attention, I have made a recommendation about large commercial loans (page 198). Also, I have commented on allegations of inappropriate business practices (page 200).

The follow-up of my recommendations arising from the examination of the Swan Hills Special Waste Treatment Facility are included here as Treasury guides the business planning process which my recommendations were designed to improve (page 188).

Treasury Redefines Its Role

Fundamental changes are occurring in the financial management of government

Recent Financial Administration Act amendments delegated authority for a number of decisions from the Treasury Board and the Treasury Department. The Treasury Board and the Treasury Department retained oversight responsibility for the financial management of the government, and the responsibility to set government accounting policies, to prepare the government's fiscal and business plan, as well as to prepare the government's annual report. These changes are in keeping with the government's initiative to reduce administration and central decision making.

Deputy ministers are taking on more responsibility and have been given more authority

Examples of some of the changes are :

- deputy ministers now appoint accounting officers; previously these appointments had to be approved by the Treasury Board,

- deputy ministers are now responsible for management control systems; previously the Treasury Department had powers to establish systems in departments; and
- deputy ministers are now authorized to approve expenditures; again this was the duty of the Treasury Department.

Treasury is redefining its role based on a corporate head office model

As a result of the changes, Treasury, working with ministries, is realigning its business processes. A report prepared by a private sector accounting firm entitled *Financial and Performance Measurement Reporting* sets out several recommendations which will assist in implementing the new reporting requirements. This report recommends a reporting model based on the concept of a corporate head office. Within the government, the role of a corporate head office includes setting corporate policy and standards, monitoring performance of ministries, collecting and analyzing information and reporting to Treasury Board. Treasury will also carry out cash, investment and debt management duties for the government. Specific recommendations were provided to implement this model including: recommendations on frequency and form of ministry reports; the need for the designation of ministry chief executive officers and senior financial officers; and the need for ministry responsibility statements.

The Auditor General supports the change in Treasury's role

I strongly support the changes. The challenge in the changes is striking a balance between reducing staff and processes consistent with the delegation of decisions, while retaining the ability to fulfill remaining responsibilities. In my view, the report provides an excellent basis for implementing the changes. As in the past, I will continue to provide whatever assistance is requested by the Treasury Department in implementing its redefined role.

Timeliness Of Reporting

The government set June 30, 1996, as the target date for release of the 1995-96 consolidated financial statements. The Provincial Treasurer released the audited statements on June 24, 1996. The Province continues to provide the earliest reporting in Canada.

The Province continues to show leadership in financial management

In addition to achieving the deadline, management of the Treasury Department are to be congratulated on their achievements regarding the quality of the consolidated financial statements. Further improvements were implemented in 1995-96, as discussed later in this report. At meetings on financial management with my provincial and federal counterparts, the Alberta experience is discussed in positive terms, and Alberta continues to be seen as a leader in government financial reporting. Particular mention is made of the business and fiscal plans, consolidated financial statements and budget and performance measures.

Consolidated Budget

Consistency with financial statements

I had previously commented about the need for a fully consolidated budget

In the 1994-95 annual report (page 165), I acknowledged the significant progress made to that date in working towards the annual consolidated budget being prepared on a basis consistent with the consolidated financial statements. This progress was in response to a public need for a comprehensive picture of the government's revenue and expenditure plans which can be compared directly with the actual financial results achieved.

The 1996-97 budget is fully consolidated

I am pleased to report that *Agenda '96* was the final stage in that evolution, in that the 1996-97 budget is now fully consolidated. Over the next few years, there will likely be refinements to the budget and financial reporting process but I do recognize this major achievement now.

Agenda '96

Agenda '96 has improved accountability

In addition to the new consolidated financial budget referred to above, *Agenda '96* shows the government's business plan and fiscal plan for the following three years. Ministry business plans were also included. Finally, and significantly, signed accountability statements of Ministers were included for the government and Ministry plans, in line with the Government Accountability Act. These are further major achievements, in my view.

Future improvements

Looking ahead, I believe that the government's financial decision making process would benefit from improved budgeting and forecasts.

Quarterly budgets

It is recommended that when the Treasury Department prepares the Province's annual consolidated budget, the planned financial results for each of the four quarters also be included.

At present, only annual consolidated budgets are prepared.

The annual forecast is the estimate of the most probable results

When each quarter's actual financial results are known, a quarterly Budget Report is made public. The Report includes an annual forecast of the expected revenues, expenses and annual surplus for the fiscal year. The forecast takes into account for the remainder of the year the actual results to date and the impact of underlying conditions.

Quarterly budgeting would improve forecasts of annual results

Quarterly budgeting will enable Ministries at a very early stage and throughout the fiscal year to compare their actual financial performance against the benchmarks of the quarterly budgets. In other words management will have an earlier answer to the question "Where are we now in relation to where we expected to be?" That in turn will provide the Ministries with a better understanding of what lies ahead for the remainder of the year and provide a more disciplined approach to changing the annual forecast. Also, the government will be in a better position to explain the impact of quarterly results on the forecast. Not only will forecasting improve, but earlier identification of variances between quarterly budget and actual results will enable Ministries to take management action earlier to correct the underlying causes of unfavorable variances.

Timing differences within the year do not affect forecasts

Only some of the differences between budget and actual results will impact the annual forecast and Ministry management's corrective action. For example, timing differences arise when an expenditure is made in the second quarter of the year instead of the first quarter as originally intended. In this case, the forecast would not be adjusted at the end of the first quarter because the expenditure would still be made during the year. On the other hand, significant variances identified at the end of a quarter which are not the result of timing differences, likely should cause an adjustment to the forecast.

I recognize that it will be critical for Ministries to carefully budget revenues and expenditures to the appropriate quarterly period.

Consolidated Financial Statements of the Province year ended March 31, 1996

The Province's consolidated financial statements are published in Volume 1 of the Public Accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them.

On June 14, 1996, I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1996. My auditor's report is reproduced on page 212 of this report.

Improvements in the past year

There have been major improvements to the financial statements—most notably, improved reporting of capital asset consumption

The Treasury Department continued to make significant improvements to accountability reporting in 1995-96.

One major change to the financial statements is the reporting of expenses rather than expenditures of Ministries. This was achieved by recording amortization of capital assets which is discussed in more detail in the Appendix entitled *Financial Terminology*. I congratulate the government on this improvement in moving to expense accounting. Alberta is the first jurisdiction in Canada in implementing this initiative. The new reporting significantly improves the measurement of costs to be managed by Ministries by focusing on what was consumed in the year, rather than what was acquired (whether consumed or not). Other major changes are new disclosures about measurement uncertainty of some revenues and expenses, risk management, and financial instruments.

The government acknowledges its responsibility for the financial statements

Further improvements were made with the addition of a new Statement of Responsibility preceding the Auditor's Report which acknowledges the responsibility of government for the financial statements. The Statement was approved by the Deputy Provincial Treasurer, Budget and Management, and the Controller.

Future improvements

The following recommendations and observations identify further desired improvements to the consolidated financial statements.

Revenue

Recommendation No. 26

It is recommended that the Treasury Department record all revenue in the consolidated and General Revenue Fund financial statements on the accrual basis.

The Auditor General made the same recommendation in the 1994-95 annual report (page 167), and the government accepted it in principle.

The accrual basis of accounting is more useful

Under the present accounting practice, certain revenue is recorded on a cash basis, that is, when the revenue is collected. Under the accrual basis, revenue would be recorded when the event that caused the revenue to be earned took place. The accrual basis is more accurate since revenue is allocated to the period in which it is earned rather than when it is received.

Revenue currently recorded on a cash basis arises from corporate income taxes, mineral tax, motor vehicle and operator licences, grazing leases and energy rentals and fees.

Excepting corporate income taxes, departments are able to calculate all revenue accruals

With the exception of corporate income taxes (discussed below), the departments responsible for the collection of the above revenues were able to calculate the accrual at March 31, 1996. In total, the accruals amounted to approximately \$170 million. The Treasury Department indicated that the accruals will be booked in the consolidated financial statements in 1996-97 or 1997-98.

Corporate income taxes

It is recommended that the Treasury Department collect the information necessary to refine the estimate of corporate income taxes.

Accruing corporate income tax is complex

I recognize that the accrual of corporate income taxes is complex, and the matter has been reviewed in some depth in consultation with my staff. Last year, my staff proposed a possible solution to the Treasury Department's Budget and Management staff. Refinements to the model suggested by the Department's staff were discussed during 1995-96.

Using basic information, we estimate the accrual is in the \$150 million to \$200 million range

In preparing the model, my staff used basic information to estimate the amount of the accrual. For example, large companies generate about 80% of the Provincial revenue from corporate taxes, most of which is received in monthly installments. Small companies, on the other hand, pay their taxes only after their fiscal year ends. My staff estimated the amounts due from large companies arising from insufficient installment payments and the amounts due from small companies based on the timing and extent of actual receipts in previous years. Our calculations estimate the year end accrual to be in the range of \$150 million to \$200 million.

Information is needed about tax loss pools

The main issue, raised by the Department, preventing an accurate accrual is the treatment of tax losses that may be carried back three years and forward seven years under current tax rules. The Department does not have any global information about the extent and expiry dates of tax pools.

Estimates are already required for budgeting purposes

To a large extent, my model does take the impact of tax losses into account. Further, the Department already deals with these same issues when it provides an estimate of corporate revenue on the cash basis for budget purposes. Large corporations for example, will adjust their cash installment payments if they feel losses will impact their tax liability. In one respect, the estimate of accrued tax at the end of a year is less difficult to prepare than the budget estimate because the state of the economy is known.

In my view, the Department should begin reporting corporate tax revenue on the accrual basis on or before March 31, 1998, and, in the meantime, gather information which will allow the estimate to be refined in future years.

Program costs

Recommendation No. 27

It is recommended that valuation adjustments be allocated to program costs in the consolidated and General Revenue Fund financial statements.

Valuation adjustments are shown as an expense and amount to \$94 million

Certain losses arising from guarantees and indemnities, and provisions for losses, doubtful accounts and loans, which in 1995-96 amounted to \$94 million, are included in the consolidated Statement of Operations as an expense described as valuation adjustments.

Allocating valuation adjustments to program costs will result in more accurate program costs

In last year's report (page 167), I pointed out that valuation adjustments are not associated with a particular program or department. Including losses from guarantees and indemnities and other provisions with a department's other program costs would enable program decisions to be based on complete costs.

There has been some progress—student loan provision costs have now been allocated to program costs

The government has accepted the recommendation in principle. The Treasury Department has acknowledged the need to allocate costs to programs where practicable and will address the costs and benefits of implementing the recommendation. Some progress has been made in that provisions for losses on student loans are now identified in the Budget Estimates of the Department of Advanced Education and Career Development.

Capital assets

The amortization of capital assets is now included in operations

Commencing in 1993-94, the estimated cost and amortization of capital assets have been disclosed in a note to the consolidated and General Revenue Fund financial statements. Financial statement disclosure for capital assets was further improved in 1995-96 with the inclusion of amortization as an expense in the Statement of Operations. In other words, the annual cost of consuming capital assets is now included in the Statement of Operations. There is further discussion on expense accounting in the Appendix entitled *Financial Terminology*.

Capital assets are not yet included in the consolidated balance sheet

The Treasury Department considered including capital assets in the balance sheet at March 31, 1996. However, based on current thinking by the Public Sector Accounting and Auditing Board (PSAAB) and the present practices of other Canadian governments, it was decided to limit the changes to those noted above.

Ministry and departmental balance sheets will include capital assets

My preference is that capital assets be recorded in the consolidated and General Revenue Fund balance sheets and I am hopeful that PSAAB, as well as other Canadian governments will ultimately have a similar view. I am encouraged by the fact that the Treasury Department supports the inclusion of capital assets on the balance sheets of the Ministry and departmental financial statements which will be produced for the first time in 1996-97.

Concerning the implementation of full capital asset accounting, I encourage the government to continue to make progress over the next three-year business planning cycle, that is, by March 31, 2000.

Progress is being made in refining the values shown for capital assets

In last year's report (page 168), I commented on the significant progress made in 1994-95 towards accounting for capital assets. Further progress has been made by several departments in 1995-96 towards having reliable and accurate capital asset records and continuing to refine and adjust the completeness and reasonableness of the estimates of the amounts.

The Province is a world leader in capital asset accounting

This refinement process may occur over some years because the subject is complex. Since Alberta is the first government in Canada, and one of the first in the world, to use expense accounting for the cost of annual consumption of capital assets, including infrastructure such as highways and water management structures, there is only limited practical experience to draw on.

I have some concern about the refinement process on ownership and values of land, which I discuss below.

Land

It is recommended that the Treasury Department monitor the progress of other departments in establishing the extent and value of land owned by the Province.

The Treasury Department needs to ensure that a process exists to properly account for and cost all land owned by the Province. This arises from the Department's responsibility for the integrity and objectivity of the Province's consolidated financial statements.

A project is underway to review land title records

As part of the refinement process mentioned above, the Department of Environmental Protection will be reviewing over the next three to five years the estimated cost of land on about 20,000 land title records, in addition to about 6,000 already reviewed. While working on this project, the Department determined that there are about 9,000 land title records in the names of other departments, and a further 1,000 Provincial land title records not identified with a specific department.

Proposed method of consolidating Alberta Municipal Financing Corporation in 1996-97

I am concerned about proposed accounting for AMFC in 1996-97

The change in accounting will reduce consolidated assets and liabilities

In my view, AMFC is not a government business enterprise—it is an extension of the Treasury Department

The proposed accounting is a step backward

It is important that the existence and estimated cost of Provincial land be established and, in my view, the Treasury Department is best placed to monitor and advise on cross-government matters of concern.

Recommendation No. 28

It is recommended that the financial position, results and cash flow of the Alberta Municipal Financing Corporation continue to be included in the consolidated financial statements on a line-by-line basis.

Although not relevant to the 1995-96 consolidated financial statements, I am concerned about the proposed accounting for the Alberta Municipal Financing Corporation (AMFC) in 1996-97.

In October 1995, Treasury Board decided that AMFC should be included in the government reporting entity on an equity basis, rather than on the present line-by-line basis.

Agenda '96, the budget document for 1996-97, has been prepared based on the Treasury Board decision. The change in presentation means that the 1996-97 consolidated assets and liabilities will be reduced by approximately \$5.1 billion based on the December 31, 1995 AMFC financial statements.

The Treasury Department believes its position for the change is supported by PSAAB which allows government business enterprises to be consolidated on the equity basis. However, I believe that AMFC exists because it benefits from the Province's ability to borrow at favorable interest rates which are then passed on to the Corporation's borrowers or debtors. Therefore, in my opinion, it is not in substance an organization which PSAAB would consider to be a government business enterprise.

In summary, my view is that the present accounting in 1995-96 for AMFC is correct. The Treasury Board decision moves the financial reporting of the Province in the opposite direction to that envisioned by my Office over the past number of years.

I believe that this proposed change is a set back to the Province's national leadership in financial reporting.

General Revenue Fund
year ended March 31, 1996

The General Revenue Fund comprises the transactions of 17 departments and the Legislative Assembly

The financial statements of the General Revenue Fund report the revenues and expenditures of the 17 government departments and the Legislative Assembly, including its Legislative Officers, together with the financial assets and liabilities they administer. Issues affecting government departments are reported under the name of the department.

I was able to report without reservation on the General Revenue Fund financial statements for the year ended March 31, 1996. The date of my report was June 14, 1996.

Crown-Controlled Organizations

Details of Crown-controlled organizations are disclosed in Volume 3, section 3, of the 1995-96 Public Accounts.

Section 16 of the Auditor General Act provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization

All information needed by the Auditor General has been supplied

I am pleased to report that all of the information which I required to properly fulfill my obligations concerning these organizations has been made available to me.

Treasury Department
year ended March 31, 1996

In addition to the annual financial audit, my staff completed an examination of the risk management process for the investments managed by the Department.

Further, there was significant participation of Principals and Managers from my Office on a number of advisory and working groups established by the Treasury Board or the Department. These included:

- Measuring Up (June 1996),
- Monitoring and Analysis project group,
- Departmental and Ministerial Financial Statements and Annual Reports inter-Ministry group and steering committee, and

- Government's new accounting systems project (PeopleSoft Project).

I am pleased that our professional resources are being sought and used in this manner.

Number of government entities

We must challenge the need for each entity

The need for the several hundred government funds, agencies, boards, committees, councils and commissions which presently exist should be continually challenged. Are all of the entities still needed and if so is there duplication of services provided or in administration and overhead costs? Would there be overall benefits to the Province if one entity's activities were merged with another entity?

The work of the Alberta Regulatory Task Force is important

I am supportive of the Alberta Regulatory Task Force Chairman's desire to encourage Treasury Board to critically review the existence of Ministry entities and to seek to eliminate duplication of services provided or in administration and overhead costs.

Much rationalization has taken place

There is evidence from the past that the government has taken action to eliminate and combine the operations of entities. There was a reduction in the number of Departments from 23 to 17 in 1992-93. The following year, eleven regulated funds were eliminated, the major ones being the Capital Fund and the Health Care Insurance Fund. Further, in 1994-95, the Farm Credit Stability Fund and the Small Business Term Assistance Fund were eliminated. Also, entities were merged to provide for efficient delivery of services such as the formation of the Agricultural Financial Services Corporation. In addition, section 81.1 of the Financial Administration Act was recently proclaimed which established sunset clauses for many Provincial agencies.

Although streamlining is underway, revolving funds have not been eliminated

In *Budget '95*, the Provincial Treasurer stated that fifty agencies, boards, commissions, committees and funds will have merged or disbanded over the three years ending March 1996. In *Agenda '96*, the Provincial Treasurer stated that the plan is to continue to streamline and reduce the administrative costs of government. An example of this streamlining is the merger of gaming and liquor activities under a Commission in July 1996. As I indicated, I am supportive of these initiatives. In previous annual reports, I have questioned the need for revolving funds. However, my concerns have not been completely resolved.

Revolving funds

Recommendation No. 29

It is recommended that the Treasury Department reassess the need for revolving funds in order to reduce costs and simplify administration. In the event that revolving funds continue, it is recommended that their financial statements include all material costs of operations.

Revolving funds are not working as intended and are not necessary

In last year's annual report (page 171), it was noted that revolving funds are not working as intended and are not necessary. The government should be able to fully cost its programs and services without the expense of operating revolving funds. There has been little progress made to reduce the number of revolving funds. A draft plan from the Deputy Provincial Treasurer indicates that the usefulness of the funds will be assessed by Ministries as consolidated planning and reporting evolves and alternatives become available. Unfortunately, based on the present time frame in the plan, this may not be done until March 31, 2006. This means that the government will continue to incur needless administrative costs for a long time.

Revolving funds provide services and materials

Revolving funds were established within departments to provide services or to sell materials to other branches within the department or to the public. Examples are the provision of financial and management services, and the provision of learning resources and supplies.

Revolving funds do not charge all costs to their customers

Alberta Treasury's accounting policy guidelines for revolving funds state that the objective of each program within a revolving fund is to provide goods and services on a break-even basis. The policy directs that users should be charged for the goods and services they receive, and that the charges should be sufficient to cover all costs, including direct costs, overhead, interest to the General Revenue Fund (if applicable), and a provision for amortization. By not including all costs, funds' customers will pay less than the full cost of the services they receive, and funds will not achieve true cost recovery. Further, users of a fund's financial statements will be unable to determine the degree to which a fund's customers are being subsidized.

It may not be possible to express an opinion on certain financial statements in the future

In the case of some revolving funds, it is possible that unrecorded costs are approaching the significance of recorded costs. All of the funds' financial statements disclose, where material, that certain costs, such as accommodation, are not included but are instead recorded in the General Revenue Fund. The exclusion of costs from a fund's financial statements has the potential, if such costs are of a sufficient magnitude, of presenting the auditor with a situation wherein he should not render an opinion on the financial statements due to the incompleteness of those financial statements. It is in this context that I have made recommendations to the government.

I have recommended to the managements of revolving funds to include all costs

Treasury Department has agreed in principle that significant operating costs should be reported but, at this time, believes it is more important to first implement full costing at the Ministry and overall government level. While the continued existence of revolving funds is being considered, I believe there is some urgency in capturing the full cost of the services being provided. Accordingly, I made recommendations to this effect to the managements of the following funds which do not at present include all significant administration and operating costs in their expenditures:

Agriculture, Food and Rural Development Revolving Fund,
Community Development Revolving Fund,
Economic Development and Tourism Revolving Fund, and
Transportation Revolving Fund.

The Personnel Administration Revolving Fund is to be discontinued

Although the Personnel Administration Office Revolving Fund did not include significant operating costs in its expenditures, I did not make a recommendation to management concerning the costs since the Fund is to be discontinued after 1996-97.

Legislative authority

Recommendation No. 30

It is recommended that the Treasury Department obtain legislative authority before transferring program surpluses and deficits among revolving funds and the General Revenue Fund.

Revolving fund programs have been transferred to other funds

Over the last two years, several programs (including associated assets and surpluses or deficits) have been moved from one revolving fund to one or more other revolving funds or to the General Revenue Fund. The program transfers resulted from government reorganizations.

There is no legislative authority for the transfers

Last year, my Office raised concerns over transfers involving the Community Development (CD), Economic Development and Tourism (ED&T) and Environmental Protection (EP) Revolving Funds respecting 1994-95 transactions (page 193 respecting the ED&T and EP revolving funds). Similar program transfers involving revolving funds took place during the 1995-96 fiscal year. These involved the Agriculture, Food and Rural Development (AF&RD) Revolving Fund, the EP Revolving Fund and the General Revenue Fund. My audit opinions attached to the 1995-96 CD, ED&T, EP and AF&RD Revolving Fund financial statements referred to legislative non-compliance that took place at various times over the last two years. I comment on this situation again on page 211 of this report.

Legislative amendments are necessary to resolve the problem

One of the transfers was made by way of a Treasury Board directive; the others were made without obtaining a Treasury Board directive. Subsequently, the Treasury Department obtained a legal opinion from the Department of Justice indicating that the Treasury Board could authorize these inter-fund transfers under section 21.1 of the Financial Administration Act if its directives made particular provision for such transfers in accordance with section 21.1(2)(c). The four transfers made without obtaining a Treasury Board directive obviously are not supported by that legal opinion. As to the fifth transfer, my legal counsel advises that there was no legislative authority for the Treasury Board directive that purported to effect the transfer, nor for any future directives of a similar kind. In my view, an amendment to the Financial Administration Act, or possibly the Government Organization Act, is needed to provide adequate legislative authority.

Pension liabilities

Information to understand pension obligations

*Employers require
assistance in
understanding their
pension obligations*

*Pension obligations exist
as a result of insufficient
contributions being
collected from employers
and employees before
1992*

*Employers require
information to manage
their pension obligations*

Recommendation No. 31

It is recommended that Alberta Pensions Administration Corporation assist the Public Sector Pension boards to improve the information communicated to employers.

In last year's annual report (page 175), I commented that not all employers understand why pension liabilities should be recorded in their financial statements. During the past year, a number of the Office's clients reporting a pension liability have asked for assistance in understanding the liability. Based on our experience, many employers still do not understand why pension liabilities should be recorded in their financial statements. Nor do they understand how their pension liabilities are estimated, how they may change from year to year and how these amounts relate to and differ from the pension plan financial statements. Further, information was not provided to employers on a timely basis.

Unfunded pension liabilities exist as a result of insufficient contributions being collected from employers and employees from the time public sector pension plans were first established until December 31, 1991. In 1993, legislation was changed. Current service must be fully funded and the prior service unfunded liabilities are being eliminated through a cost-sharing arrangement between the government, and employers and employees within the respective plans.

Employers are required, under generally accepted accounting principles, to record their share of the pension liability. The Alberta Pensions Administration Corporation administers the public sector pension plans on behalf of the Pension Boards. The Corporation needs to provide pension information to employers in a timely manner to permit them to issue financial statements and to prepare annual budgets. Employers want to understand and manage their pension liabilities.

We will work with the Alberta Pensions Administration Corporation and the pension Boards to identify the information needs of employers

Allocating the pension liabilities

Under the cost-sharing arrangement, the pension liability is reallocated continually between employers

We will continue to monitor the impact that the cost-sharing arrangement has on individual employers

In response to employers' questions, we prepared a document—*Understanding Your Pension Obligation*—with input from management of the Alberta Pensions Administration Corporation. We will also be working with the Alberta Pensions Administration Corporation and the pension Boards over the next year to help them to define the information needs of employers participating in the public sector pension plans.

In my 1994-95 annual report (page 175), I commented on the need for the Treasury Department to review the manner in which the pension liability is reallocated to employers within the Public Sector Pension Plans. The value of the liability allocated to employers reflects an estimate of what the employer will ultimately pay based on the cost-sharing arrangement. As a result of employers downsizing and the government's decision to privatize certain organizations, the liability is continually reallocated between employers. The reallocation arises due to the manner in which an employer's share of the liability is calculated. Each employer's share is based on the percentage of its pensionable earnings to the total of pensionable earnings for all employers in the Plan.

Although I still believe that to shift costs from one organization to another seems inappropriate, the Treasury Department has considered my previous recommendation and concluded that the present allocation method reflects the intent of the legislation. Although inequities still exist, most of the plans, have recognized experience gains since the liabilities were first reported. As a result, the changes in the size of the workforce and privatization have not had an impact on the rates of contributions which employers are required to pay towards the unfunded liability. I will continue to monitor the impact of the changing workforce on the employers' liabilities and the need for the Province to review the manner in which the pension liability is allocated to employers.

Commitments related to the devolution of services and disposition of assets

It is recommended that the Treasury Department ensure that rights or financial obligations that remain after the sale of assets or transfer of services are identified and monitored.

Treasury Department should ensure that the risks which have arisen from the sale of assets or the transfer of services are identified and managed

Over the last few years, the government has sold or otherwise disposed of a number of assets. In some cases, the government has retained either financial obligations or rights. The fact that there are continuing obligations is disclosed in note 5(c) to the consolidated financial statements. Treasury, with overall responsibility for the financial affairs of the Province, should ensure that government organizations have identified their rights and obligations. These organizations will then need to monitor significant cases so that action can be taken on a timely basis to minimize the government's exposure to loss or ensure that any revenue due is received.

There are continuing obligations from the sale of the Province's investment in Syncrude

An example of a continuing obligation arises from the sale of the Province's investment in the Syncrude Project. In this case, the other participants in the joint venture did not release the Province from its obligations under the various joint venture agreements. Therefore, the Province may be called on to pay any future costs not paid by the purchaser.

There is the possibility of income arising from the sale of the interest in the Bi-provincial Upgrader

In the case of the sale of the Province's interest in the Lloydminster Bi-provincial Upgrader, the Province retained the right to realize income if certain circumstances arose.

The sale of the Swan Hills Special Waste Treatment Facility has also given rise to continuing obligations and potential revenue. This is discussed further on page 97.

The risks must be identified and monitored

In most cases of disposal of assets or transfer of assets, there are no significant continuing obligations or rights. However, in my view, it would be prudent to conduct a review to ensure all significant outstanding matters are being monitored.

**Effective expenditure
management**

It is recommended that the Treasury Department review the legislation and directives related to expenditure controls to determine if a mechanism can be established to resolve situations in which adherence to legislation appears to frustrate a sound business decision.

There is a supply vote for operating expenditures and a supply vote for capital expenditures

The Legislative Assembly authorizes a supply vote for operating expenditures and a separate supply vote for capital expenditures for each department. This provides deputy ministers with a great deal of flexibility to decide how to spend money within the vote. Under circumstances where the voted funds are not sufficient, further funds can be provided by either a special warrant or by a Supplementary Appropriation Act. The Financial Administration Act, Deficit Elimination Act and Balanced Budget and Debt Retirement Act set out the conditions under which specific special warrants can be issued.

Energy chose to fund a critical systems development project temporarily without authority, rather than shut it down

Some departments have experienced problems managing capital expenditures within their supply vote limits when actual expenditures do not conform to plans. For example, Energy (as further discussed on page 86) did not properly estimate the cost of development of the Mineral Revenue Information System. In order to make payments on a timely basis, Energy spent money on capital out of its operating vote which is contrary to the Appropriation Act and the Financial Administration Act.

Changes in circumstances can mean the original budget is not attainable

The above example occurred because the original estimates were too low and the circumstances did not justify a special warrant. Other cases may arise which result from unforeseen circumstances or new information which alters business decisions and therefore the expected expenditures. For example, a Ministry may want to delay a capital project, such as software development, because of changing needs. Consequently, staff costs associated with this capital project would have to be charged to the operating vote. However, the operating vote may have insufficient funds to cover the charge. In such situations, there is a risk that management may not make the most cost-effective decision.

Any change must respect the supremacy of the Legislative Assembly to direct spending

The process that is now in place arose out of the need to get and keep government spending under control. Also, it reflects the supremacy of the Legislative Assembly. These principles are important and fundamental and must be respected in any change. A careful review of the legislation is required to determine if a mechanism is present or can be developed which would permit departments to make sound business decisions and stay within the direction of the Legislative Assembly.

Recommendations Arising From The Examination Of The Swan Hills Special Waste Treatment Facility

Introduction

The government accepted in principle my recommendations to improve business planning

As a result of my examination of the government's involvement in the Swan Hills Special Waste Treatment Facility, I made two recommendations concerned with ensuring that sufficient information was included in three-year business plans of all government entities. Although the recommendations were accepted in principle by the government, I did not expect them to be implemented in the 1995-96 planning process.

To monitor progress on the implementation of my recommendations, I reviewed the 1997-2000 Business Plan instructions. As the Office of Budget and Management of the Treasury Department issues these instructions, I believe the appropriate place for me to note the status of the two recommendations is in the Treasury Department section of this report.

Quantifying major changes

Instructions have been issued to quantify the effect of changes to proposed plans

In the 1994-95 annual report (page 33), I had recommended that the effect on three-year business plans of significant changes to major programs or capital expenditures be quantified before the changes are implemented.

This concern has been addressed in the 1997-2000 Business Plan instructions issued to ministries. The instructions include a definition of "significant change" to assist ministries in compiling the required information. In addition, the instructions require the identification of proposed changes to strategies and significant reallocation of resources within existing spending targets. I believe the new requirement will better assist Standing Policy Committees and the Treasury Board in arriving at their decisions. As part of my ongoing review, I will monitor the approved

**Disclosing major
assumptions**

*There is a danger that
the effect of assumptions
may not be understood*

*Disclosure of underlying
assumptions will assist
in the review of three-
year business plans*

business plans to review implementation of the instructions.

Recommendation No. 32

It is recommended that the three-year business plan instructions issued by the Treasury Department require appropriate disclosure of the major assumptions, and in particular the downside risk to ministry plans, when proposed major programs or capital expenditures are dependent on future events.

I have repeated the second recommendation made in 1994-95 (page 46).

Our review of the 1997-2000 Business Plan instructions indicates that this recommendation has not been addressed. The instructions do not require disclosure of underlying assumptions about future events and an assessment of their impact. Without specific and clear instructions, there is a danger, particularly in future years, that such information may not be included in the business plans, and may not be identified and considered during the review by the Standing Policy Committees and the Treasury Board.

I believe, therefore, that Ministries should be required, in the business plans, to provide the Standing Policy Committees and the Treasury Board with an assessment of the impact of significant assumptions. This information should enable these reviewing bodies to consider the validity of the assumptions and their financial impact.

Alberta Heritage Savings Trust Fund

year ended March 31, 1996

**Investment risk management
policies and investment
performance**

*I had previously
recommended that the
level of acceptable
investment risk, and
additional performance
measurement criteria, be
established*

The 1994-95 annual report (page 178) recommended that the level of acceptable investment risk be established for the Alberta Heritage Savings Trust Fund. Specifically, the objectives and investment strategies should define acceptable risks and tolerance to fluctuations in the return earned on the Fund's investments. Further, specific policies need to be consistent with the overall level of risk to be assumed. I also recommended the Treasury Department include additional performance measurement criteria in the Fund's investment objectives. I indicated the investment objectives of the Fund should include performance measurement criteria in relation to actual market performance.

Following changes to the Fund's objectives, Treasury will develop new risk policies

Legislation was passed changing the objectives and nature of the Fund. As a result the Department will be developing new investment management policies and strategies consistent with the changes in the objectives of the Fund. I will be reviewing the Department's progress as policies and performance measurement criteria are developed.

Investment Risk Management

In the current year, I extended my review of risk management policies and guidelines to the risk management process that exists for all investments managed by the Treasury Department. The results of this review follow and are arranged under the following headings:

- Introduction
- Risk Management Policies
- Procedures, Internal Controls and Audit
- Reporting, Monitoring and Controlling

Introduction

World-wide, significant emphasis is being placed on the need for effective risk management policies. Risk is not new, so why the increased attention to risk management?

Risk is defined by the Oxford dictionary as the chance or possibility of danger, loss, injury or other adverse consequences. Risk is associated with any business. If the risks are not effectively managed, an organization is likely to incur losses.

There have been a number of recent investment losses reported for organizations both in the public and private sector. It is not so much the number of losses but the size and cause of the losses being reported that is of concern. Many have been the result of excessive position taking in high risk investment instruments, poor internal controls, and inadequacies in corporate policy regarding the use of derivatives.

As the Treasury Department manages over \$24 billion in investments, and \$1.5 billion in related derivative activities, the need to manage the related risks is crucial. Our review of the Treasury Department's risk management process was based on the following criteria. I believe these to be the main elements for an effective risk management process:

- The board of directors (or its equivalent) should establish and approve risk management policies consistent with the organization's objectives and tolerance to risk, and should approve the types of investment instruments and the circumstances in which they can be used.
- Senior management should establish clear written procedures for implementing the risk management policies set by the board.
- Senior management should establish an effective system of control and audit which ensure transactions are accurately and completely executed, recorded, processed and settled.
- Senior management should ensure there is an effective system for identifying, monitoring, controlling and reporting all aspects of risk and there is an independent review of the organization's ongoing risk exposure.

The Department's policies and procedures support effective risk management

Overall, our view is that the Treasury Department has policies and procedures which support an effective risk management process for investments and related derivative activities. I believe the following recommendations will strengthen the Treasury Department's existing risk management process.

Risk Management Policies

Independent review

Fundamental to good governance are risk management policies that are consistent with the organization's objectives and tolerance to risk

Policy makers should be segregated from day-to-day management

Treasury Department manages investments on behalf of various funds and organizations

Independent review and approval of risk management policies exists for many of the funds and organizations

For some funds, there is no independent review—policies are reviewed only by management of the Treasury Department

Recommendation No. 33

It is recommended that the Treasury Department extend the independent review and approval of investment risk management policies to all investment funds.

The establishment of risk management policies is a principal aspect of governance. The process of establishing such policies includes identifying and understanding the risks and financial objectives of the organization, the experience and capabilities of management and the risk tolerance of the stakeholders. Risk management policies establish the guidelines which balance the organization's risk tolerance with financial objectives.

The need for an independent review and approval of all risk management policies is critical. Management is accountable for implementing policy. Their focus and performance is evaluated based on their success in implementing that policy. They will not always have an objective view when it comes to evaluating the policies.

The Treasury Department manages: investments on behalf of various Provincial agencies and Boards, and endowment funds; the investments of the Alberta Heritage Savings Trust Fund; and the investments of the Consolidated Cash Investment Trust Fund.

Independent review and formal approval of risk management policies exists, or will soon exist, for many of the organizations. For instance, the pension Boards and The Workers' Compensation Board are responsible for establishing their respective investment policies. The governance structure for the Alberta Heritage Savings Trust Fund is changing and policy for the Fund will in the future be approved by an independent committee.

In contrast, the Department is responsible for the risk management policies of the Alberta Heritage Scholarship Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Consolidated Cash Investment Trust Fund and other smaller investment funds. The Department,

through various management committees, establishes policies for these organizations and funds on behalf of the Provincial Treasurer. As a result, policies are not always reviewed by those best able to define and understand the fund's tolerance to risk and objectives. Further, it means management staff who are accountable for implementing policy are also defining policy.

Responsibility for risk management policies should be with those who manage the programs funded by the investment earnings

Responsibility for establishing risk management policies for the endowment funds and other smaller investment funds should rest with the organizations responsible to deliver the programs funded by investment earnings. This would ensure the nature, purpose and objectives of the programs being delivered are understood and considered when establishing risk management policies. It would also provide the necessary segregation of the policy maker from day-to-day management. In order to achieve this, legislation would need to be amended, as currently, responsibility for investment management policies rests with the Provincial Treasurer.

If Treasury is responsible for program delivery, there should be independent people involved in setting risk management policy

In some cases, such as the Consolidated Cash Investment Trust Fund, the Treasury Department is responsible for program delivery. In these situations, review and approval of risk management policies should be the responsibility of a committee independent of day-to-day management. Consideration could be given to expanding the role of the new investment committee for the Alberta Heritage Savings Trust Fund to include all funds where responsibility rests with the Provincial Treasurer.

Policies for derivatives

The Treasury Department uses derivatives as part of its investment strategy

It is recommended that the Treasury Department establish specific policies detailing in what circumstances derivatives are to be used by each investment fund, and the extent and types that may be used by each fund.

Derivatives can be defined as any instrument which derives its value from an underlying security or market index. Derivative transactions are used by the Treasury Department for shifting asset mix, hedging interest rate and currency exposures, and for enhancing investment returns.

The Department has appropriate overriding policies for all derivative activity

The Treasury Department has established an overriding policy which states that no derivative transaction undertaken will result in a leveraged position. As a result, the Department will not enter into an agreement which would increase its exposure beyond the amount of its existing holdings. The Department has also established policies and processes which effectively manage the credit, liquidity and legal risks associated with derivative activity.

Additional policies for each investment fund should be established

However, there are no limits as to the extent and types of derivative activity allowed by each investment fund and no policies which ensure the derivative activity is consistent with the objectives of the investment funds. I believe that the policies and procedures for each investment fund should clearly define which derivatives can be used, in what circumstances and to what extent.

Procedures, Internal Controls and Audit

Investment valuations

It is recommended that the Treasury Department develop procedures to ensure the valuations of privately traded investments and derivatives are carried out independently of those responsible for trading. In situations where this is not possible, valuations should be subject to a timely independent review.

An effective system of internal controls and audits are key elements of an effective risk management process

A key principle for managing investment risk is the need for senior management to establish an effective system of procedures, internal controls and audits, which ensures transactions are accurately and completely executed, recorded, processed and settled. Essential to an effective system of internal control is the proper segregation of duties and the regular monitoring and reporting on compliance to policies and procedures.

Overall, the Department has established an effective system of internal controls and procedures. Our review, however, identified two processes where the segregation of duties is not sufficient.

The processes to value derivatives and privately traded investments are not adequately segregated from those responsible for trading

The Department's policy is to segregate the trading function from settlement, record keeping, valuation and reporting. Due to the complexity and nature of derivative transactions and privately traded investments such as real estate, the valuation of such investments is not segregated from those responsible for trading. In these instances, there should be a process which would provide for a timely and independent review of the valuation of derivatives and privately traded investments.

Audit

It is recommended that the Treasury Department establish an independent internal audit function to monitor compliance with investment policies and procedures.

Ongoing internal audits to ensure adherence to policies and procedures are a key element to effective risk management

Currently, an independent review of compliance with policies and procedures is provided by annual external audits. The external audit however only considers and reviews internal controls to the extent necessary to meet the objective of reporting on the financial statements. An important part of managing risk is to ensure established policies, procedures and controls are subject to regular review and tests by someone independent of those responsible for developing, managing and implementing investment policies and procedures.

Currently, there is no independent and ongoing review and testing to ensure policies and procedures are being adhered to

The Treasury Department does not have a process to ensure policies and procedures are adhered to and complied with throughout the year. Given the size of the portfolio, an internal audit function, independent of other management, is essential to promote the adoption of and ensure the continued application of appropriate policies, systems and procedures. Based on previous discussions, we understand the Department is considering establishing an internal audit function for investments.

Reporting, Monitoring and Controlling

Internally managed funds

There is an effective system

A quarterly report is prepared which includes a detailed analysis of all internally managed funds and compares their current status to objectives, constraints and guidelines. The quarterly report provides necessary information for management to monitor and control risk.

Externally managed funds

There should be an equivalent level of reporting and monitoring of the externally managed funds to that for internally managed funds

It is recommended that the Treasury Department expand its review of the externally managed investment funds to assess both adherence to stated policies and the valuation of manager-priced securities.

The Department uses external managers to manage approximately \$2 billion of investments. Currently, a monthly review of externally managed investments is conducted by the Chief Investment Officer. Further, a review of external managers' performance is completed quarterly. The reviews, however, do not assess adherence to specific policies or guidelines. For example, external manager contracts place restrictions on the managers, such as limits on short-term debt holdings and hedges. Reports should be prepared, at least quarterly, similar to those prepared for the internally managed funds, which assess compliance with established policies and guidelines.

Manager-priced investments should be independently reviewed

There are also insufficient controls to ensure the accuracy of external manager-priced investments which represent approximately 2% of the total externally managed funds (\$60 million as at March 31, 1996). External managers are remunerated based upon performance and therefore may be motivated to inflate market values. The Treasury Department should on a monthly basis review the valuation of all manager-priced investments.

Accounting policies and annual reporting

Recommendation No. 34

It is recommended that the Treasury Department establish a dedicated accounting function to increase the efficiency and effectiveness of reporting and to better meet the needs of the investment management division.

Accurate and timely financial information is critical to effective management

The perception is that accountants rarely set the world on fire. The reality, however, is that the accountant's role is vital. Without accurate and timely information about an organization's profits, assets and liabilities, stakeholders cannot monitor the performance of management and evaluate or plan for the future.

Accountants need to understand the business and risks on which they are reporting

For accountants to meet their responsibilities, they need to be knowledgeable about the business and the risks facing the organization. They need to work with investment management to understand the reporting objectives and concerns. Further, although financial reporting standards are still evolving, accountants should be proactive in establishing accounting policies, and should ensure investment management are aware of emerging reporting standards and practices.

A dedicated accounting function would increase the effectiveness of investment management

We have consistently found insufficient communication between Accounting and the other divisions involved in providing investment management services. As a result, financial information reported to Boards and agencies has been affected. For example, participants' holdings in pooled investment funds have not been reported on the same basis by the accountants and the investment management division. The accounting for the investment management transactions should be an integrated and dedicated activity. Complete and timely financial information is critical to effective management.

Acknowledgment

We wish to acknowledge the Treasury Department's assistance in completing this review of investment risk management, and in particular to thank those individual staff members who answered our many questions.

Treasury Branches Deposits Fund

year ended March 31, 1996

Introduction

Following recommendations by the Auditor General, which were endorsed by the Financial Review Commission in 1993 and by a Working Group chaired by the Right Honourable Don Mazankowski in 1995, the Treasury Branches Amendment Act, 1995 created a new governance structure for Alberta Treasury Branches. Two of the more visible effects of this legislation were the creation of a Board of Directors for Alberta Treasury Branches and the establishment of an Audit Committee.

The legislation establishing the Board of Directors was proclaimed on June 12, 1996. By that time, the following audit work was complete:

- An examination of the systems used to approve and monitor large commercial loans.
- An examination of the systems used to generate certain management and accountability information.

Administration of Large Commercial Loans

Lending and loan monitoring policies

Recommendation No. 35

It is recommended that Alberta Treasury Branches adopt a more business-like and profit-oriented approach when approving and monitoring large commercial loans.

Losses on large commercial loans are impairing profits

Most of Alberta Treasury Branches' loans are generally well administered and profitable. In recent years, however, loan losses and foregone interest income have caused the portfolio of large commercial loans to perform below similar portfolios of other lending institutions.

Alberta Treasury Branches has helped clients that were experiencing difficulties

Alberta Treasury Branches' business philosophy is to be as helpful as possible to its customers. This has sometimes involved providing additional credit over a number of years in an attempt to sustain businesses that were experiencing operating difficulties.

Assuming the client's business risks can be costly

In situations like these, Alberta Treasury Branches runs the risk of assuming disproportionate amounts of the borrower's business risks, without adequate prospects of commensurate compensation. In effect, as Alberta Treasury Branches' exposure to substantially larger losses increases, so too does the cost of administering and realizing on defaulted loans.

A more business-like approach to approving, monitoring and administering large commercial loans would help reduce the risk and exposure to loss. The formation of a special group charged solely with managing loans that are experiencing difficulties might also help in this regard. The following loan administration functions warrant particular attention:

Approving loan applications and extensions

Credit risk can be reduced by insisting on appropriate and reliable information

The risk of loan losses can be reduced by effective policies and procedures for granting credit to borrowers. Borrowers should in all cases be required to provide comprehensive and reliable information about their business operations and plans, and the security they provide, before funds are advanced. Equally importantly, the lender must perform enough due diligence on the information provided by the borrower to be satisfied that it is reliable.

Temporary credit

The risks associated with temporary credit can be controlled

Temporary credit facilities for customers should be controlled by setting limits on a connected account basis to augment those set on an individual account basis. Where temporary credit facilities are not appropriately used, consideration should be given to denying further requests.

Customers' financial reporting

A more business-like approach to loan monitoring is required

Alberta Treasury Branches needs to prescribe more definitive policies for the minimum and preferred financial reporting by borrowers. The quality and frequency of the reporting required should depend on the exposure, the nature of the business, and the nature and value of the security. It should be clear when independently audited financial statements are required, and when internally certified or review engagement financial statements can be accepted. The consequences of non-compliance with these reporting requirements should also be specified and enforced.

Allegations of Inappropriate Business Practices

Allegations have been made

During 1995-96, I received, and by other means became aware of, allegations of inappropriate business practices at Alberta Treasury Branches. In some cases, the allegations were already in the process of being investigated, either by my staff or by Alberta Treasury Branches. In other instances, new investigations were commenced. As the work proceeds, I receive regular progress reports.

The Deputy Auditor General was seconded to ATB

In March 1996, the Deputy Provincial Treasurer responsible for Alberta Treasury Branches' governance during the transition to a board-governed organization requested assistance, and I was pleased to second the Deputy Auditor General to Alberta Treasury Branches to take responsibility as Chief Inspector. This secondment was judged to be the most effective way of using the resources of my Office to assist a client.

Audit work is ongoing

My audit work, in some cases in conjunction with Alberta Treasury Branches' Chief Inspector, revealed that most of the allegations were unfounded. However, some of the allegations were confirmed, and others are still being investigated.

The new Board of Directors is fully aware of the situation

As a result of this work, I made a number of recommendations designed to address the problems identified. These recommendations called for: a more business-like approach to administering large commercial loans; better quality due diligence when approving credit; improved control over temporary credit facilities; better financial reporting by customers; a more effective chief inspector function; an expanded code of conduct and ethics; and a better process for dealing with allegations of improper behaviour received from staff and others. These recommendations have since been discussed with, and have the support of, the new Board of Directors.

None of ATB's customers have been disadvantaged

I have no evidence that any of Alberta Treasury Branches' customers were financially disadvantaged by the inappropriate business practices. The situations, however, undoubtedly contributed to the poor performance of the portfolio of large commercial loans, though to what extent is not possible for me to estimate.

The problems brought to light are being resolved

I am pleased to acknowledge the progress that has been made to implement my recommendations. The committees of the new Board of Directors are playing a lead role in this regard, and the Deputy Auditor General's secondment as Chief Inspector continues.

Management Systems

Loan fee revenue

It is recommended that Alberta Treasury Branches automate the generation and recording of loan fee revenues.

Loan fee revenue is significant

Alberta Treasury Branches charges loan fees when credit and loan applications or extensions are approved, or when customers' accounts go into an overdraft position. Annual loan fee revenues are approximately \$12 million.

Control over loan fee revenue is poor

Weaknesses in the controls over the authorization, assessment, and collection of fees were detected during the annual audit. Management does not have an effective control to ensure that all fees that should be assessed are collected.

Automating the generation of loan fee revenue management would improve control and management information

Controls over the accuracy and completeness of loan fee revenue could be improved by automating the generation of loan fees on Alberta Treasury Branches' main banking system. Automation would also facilitate the provision of management information, which would help when evaluating customer profitability, pricing future loans, and measuring branch performance.

Alberta Treasury Branches has agreed to automate the generation and improve the reporting of loan fee revenue.

**Computer system
enhancements****Recommendation No. 36**

It is recommended that Alberta Treasury Branches automate, and make more reliable and comprehensive, the reporting of information on connected accounts, classified advances, letters of guarantee, and letters of credit.

Automating and connecting more information systems would increase efficiency and reduce risks

Readily available and reliable information is vital to the efficient operation of any lending institution. Nowhere is this more important than in the administration of loans to large and complex business organizations, particularly where groups of related companies have loans and other accounts with cross-collateralization, perhaps at several different branches. In these and other circumstances, the lending institution's computer systems must be able to provide the timely, accurate and complete information needed to approve new credit applications, monitor the ongoing health of the accounts, and alert management to potential problems.

In several areas, Alberta Treasury Branches could improve the timeliness, accuracy and completeness of its management information by automating or otherwise improving the usefulness of its computer systems. Examples are as follows:

Some of the information on connected accounts is assembled manually

- Letters of guarantee, letters of credit, and connected loan accounts should be recorded on the main banking system. This will enable management to readily determine the total credit exposure to each customer. It should also facilitate the approval of credit applications and the monitoring of accounts.

Information that could point to problems with loans is not automatically generated

- The generation of certain monthly management information regarding loans in arrears and expired credit applications should be automated. These reports should be expanded and statistics compiled of breaches of financial and non-financial credit covenants. Situations such as irregular security margins, down-grading of customers' credit status, and late customer financial and other reporting should be covered. Automating and reporting this information regularly should enable remedial action to be taken more promptly with a consequent improvement in the quality and performance of the loan portfolio.

Alberta Treasury Branches has agreed to make these computer system enhancements a priority.

Trust Funds

The Province administers public money over which the Province has no power of appropriation. It is therefore not included in the Province's consolidated financial statements. At March 31, 1996, trust funds under administration amounted to \$15,637 million. Summarized information of the funds making up this amount is provided in Note 7 to the consolidated financial statements.

Other entities

Financial audits of the following were also completed:

473654 Alberta Ltd. - year ended December 31, 1995

Alberta Heritage Foundation for Medical Research

Endowment Fund - year ended March 31, 1996

Alberta Heritage Scholarship Fund - year ended
March 31, 1996

Alberta Insurance Council - year ended
December 31, 1995

Alberta Municipal Financing Corporation - year ended
December 31, 1995

Alberta Pensions Administration Corporation - period
ended December 31, 1995

Alberta Securities Commission - period ended
March 31, 1996

ARCA Investments Inc. - year ended March 31, 1996

Consolidated Cash Investment Trust Fund - year ended
March 31, 1996

Credit Union Deposit Guarantee Corporation - year
ended December 31, 1995

N.A. Properties (1994) Ltd. - year ended March 31, 1996

NFI Finance, Inc. - year ended December 31, 1995

Orion Properties Ltd. - year ended December 31, 1995

SC Financial Ltd. - year ended December 31, 1995

The Alberta Government Telephones Commission - year
ended December 31, 1995

Treasury Revolving Fund - year ended March 31, 1996

Other entities (continued)

Pension related:

For the year ended December 31, 1995:

Local Authorities Pension Plan

Management Employees Pension Plan

**Public Service Management (Closed Membership)
Pension Plan**

Public Service Pension Plan

Special Forces Pension Plan

Universities Academic Pension Plan

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1995-96 fiscal year, the Auditor General acted as auditor of the following organizations:

- Alberta Children's Hospital Research Centre
- Alberta Hospital Edmonton Foundation
- Calgary Regional Health Authority
- Capital Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority 7
- Fairview College Foundation
- Foothills Hospital Employees' Charity Fund
- Foothills Hospital Foundation
- Grande Prairie Regional College Foundation
- Headwaters Health Authority
- Northern Lights Regional Health Authority
- Olds College Foundation
- Peace Regional Health Authority
- Regional Health Authority
- The Trustees of the Academic Staff Benefits Plans of
The University of Alberta
- Western Irrigation District
- WestView Regional Health Authority

Financial statements

Annual financial audits of the following for the year ended June 30, 1996, were in progress at the date of this report:

Fairview College Foundation,
Grande Prairie Regional College Foundation, and
Olds College Foundation

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. The Auditor General is the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1995-96 consolidated financial statements is reproduced on page 212 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1995-96 fiscal year, I received no requests to perform a special duty under section 17.

Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency which, in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 210 of this report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Mission

The following statement continues to guide the work of the Auditor General's Office:

The mission of the Office of the Auditor General of Alberta is to add credibility to the government's financial reporting and to improve the financial administration of the Province.

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Improving financial administration

My Office helps the Legislative Assembly, the government and its managers focus on the issues critical to sound financial administration. My Office, therefore, undertakes in-depth examinations of a selection of management control and information systems each year. The recommendations that arise are designed to promote economy and efficiency, and improve reporting so that decision makers are provided with reliable and relevant information.

Types of audit

Throughout section 2 of this report, the term “financial audit” is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1995-96 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1995-96 have been reported to management.

Reporting Process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences and audit committee meetings) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of this Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management and boards understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by my staff to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, recommendations considered important enough to be reported to ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all ministers and deputy ministers or chief executive officers were informed of observations that relate to areas for which they are responsible.

The Provincial Treasurer on behalf of the government responded publicly to the numbered recommendations in the 1994-95 annual report on February 22, 1996 in *Agenda '96*. Of the 38 numbered recommendations, 26 were accepted, 11 were accepted in principle, and one was no longer applicable.

Reservations in Audit Reports on Financial Statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. This report shows that 4 such reservations were issued:

3 reservations of opinion were because the financial statements of:

- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Northlands School Division No. 61

include revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

One reservation of opinion was because, as described more fully on page 72, the Tourism Education Fund received revenue and incurred expenses which were outside the scope of the Tourism Education Council Act.

In all other cases, I was able to report without a reservation of opinion.

Other Information Included in Audit Reports on Financial Statements

Additional information

Auditor's Reports for the financial statements of:

- Agriculture, Food and Rural Development Revolving Fund
- Community Development Revolving Fund
- Economic Development and Tourism Revolving Fund
- Environmental Protection Revolving Fund

contained additional information describing transfers of assets and liabilities between funds which were not authorized by legislation.

Although the Financial Administration Act does not provide for transfers between funds, in my opinion, there was no inappropriate use of public funds.

In addition, the Auditor's Report for the Public Works, Supply and Services Revolving Fund contained additional information of an advance made by the Fund to a private corporation which did not comply with the directives under Section 21.1 of the Financial Administration Act.

The non-compliance occurred because the legislation does not contemplate the possibility that such an advance might be necessary. In my opinion, there was no inappropriate use of public money.

Report Under Section 18 of The Auditor General Act

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements and any other comments related to my audit of the financial statements, and to state my reasons for any reservation of opinion.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1996, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statement of financial position of the Province of Alberta as at March 31, 1996 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

"In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements."

The Auditor's Report was dated June 14, 1996.

Public Accounts

Audit

The Public Accounts of the Province are published in four volumes:

Volume 1 - Annual Report of the Government of Alberta and the Consolidated Financial Statements of the Province of Alberta

Volume 2 - Financial statements of the General Revenue Fund, revolving funds and regulated funds

Volume 3 - Financial statements of Provincial agencies, commercial enterprises and Crown-controlled corporations

Volume 4 - Financial statements of universities, public colleges, technical institutes and health boards and authorities

All of the information in the Public Accounts is covered by Auditor's Reports except as follows:

- Provincial Treasurer's Accountability Statement and Annual Report of the Government of Alberta, and the Statement of Responsibility for the Consolidated Financial Statements approved by senior management of Treasury Department in Volume 1.

- Sections 2 and 5 of Volume 2 as follows:

Section 2 of Volume 2 contains details of General Revenue Fund expenses and revenue for each department. I have not expressed an audit opinion on this information. The information is extracted from the General Revenue Fund's financial records which were audited for the purpose of expressing an opinion on the General Revenue Fund financial statements. The audit opinion on the General Revenue Fund financial statements explains that the work done was sufficient to obtain reasonable assurance whether the financial statements as a whole were free of material misstatement. The work was not intended to obtain assurance as to whether the information contained in individual departmental statements in section 2 of Volume 2 was free of material misstatement.

Section 5 of Volume 2 contains supplementary information required by legislation or by direction of the Provincial Treasurer. I have expressed an audit opinion on the Salaries and Benefits Disclosure information and on the financial statements of seven pension plans included in this section. I have not expressed an audit opinion on the remainder of the section but I have determined that the information is consistent with the audited information in the Public Accounts.

Consolidated financial statements

The 1995-96 consolidated financial statements report on the Province's financial condition, results of operations and cash flows. Volume 1 of the Public Accounts also includes the Annual Report of the Government of Alberta.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities whose financial statements are published in Volumes 2 and 3 of the Public Accounts, including for example, the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include certain Provincial agencies such as universities, public colleges and technical institutes, and regional health authorities and school boards.

Accounting Principles and Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Board of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. In the main, the exceptions to generally accepted accounting principles relate to the method of accounting for capital assets and expansion of the consolidated reporting entity.

As is customary with government accounting, the General Revenue Fund and consolidated financial statements of the Province of Alberta are not prepared in accordance with generally accepted accounting principles. The basis of accounting is explained in a note to the financial statements, and is, in my opinion, appropriate.

Auditing standards

The work of the Auditor General's Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Board.

Our contribution

Apart from providing comments on draft accounting and auditing standards, the Auditor General's Office contributes directly to professional accounting organizations:

Peter Valentine, FCA, is a member of the Board of Governors of CCAF. CCAF is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit.

Andrew Wingate, CA, is a member of the Auditing Standards Board of the Canadian Institute of Chartered Accountants. He was a member of the Not-for-profit Organizations Task Force that developed the new accounting recommendations for not-for-profit organizations.

Jim Hug, CA, is a member of the Practice Review Committee of the Institute of Chartered Accountants of Alberta.

Doug Wylie, CMA, is a member of the Practice Review Committee of the Society of Management Accountants of Alberta.

Mary-Jane Dawson, CA, is a member of the Canadian Institute of Chartered Accountants auditing task force on Related Parties and Economic Dependence.



ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

March 31, 1996

General Comments on Operations

Management Discussion and Analysis

Management's Responsibility for Financial Reporting

Financial Statements

General Comments on Operations

One of our goals is to meet the standards of the best annual reports on organizational performance

To assist stakeholders in assessing our performance, the audited financial statements of the Office of the Auditor General and a related management discussion and analysis follow this general commentary. We believe we have made a good start in explaining our performance but acknowledge that we have not yet been able to meet the standards set out on pages 24 to 28 for the very best in annual reporting on performance. To do just that is one of the Office's goals.

Our field auditors are our front line and we work to provide them with the support they need

1995-96 was an exciting year—a year in which the Office made service delivery our watchwords. By streamlining operations we have freed up resources to provide audit staff with more administrative and technical support. Significantly, we have placed primary responsibility for the accuracy and quality of our outputs with the Audit Division. We have embarked on implementing a plan to deal with communications challenges and issues.

Although proposed workstations were initially the subject of criticism, their place in our plan for cost-effective auditing is now understood

In January 1996, we were the subject of a great deal of media interest in our continuing plan to maximize efficiency and minimize costs, including our three-year plan for furniture purchases. The experience was certainly unexpected. After all, isn't it those who the auditor reports on who are supposed to be in the papers and on television? Many of us now have a keener appreciation of what it is like to be in the goldfish bowl. Acquiring workstations is part of the plan to optimize the use of our remaining office space and provide for the use of computer technology. The business decision was, and continues to be, sound. By February 1996, we feel that we had successfully communicated the reasons and basis for the furniture budget. We then concentrated on what the experience had taught us.

Our own performance information, notably our budget, lacked information relating costs to intended effects

The so-called "furniture fiasco" prompted us to examine our own accountability in the context of the Accountability Guidelines that we published for use in the Alberta public sector. Guideline # 5 reads: "Accountability reports should link information on the costs of outputs with information on their effects." With such information, a user can assess the cost-effectiveness of the organization. And the user is particularly well served when the performance information includes data which allows benchmark comparisons. Credible evidence of the cost and quality of an entity's outputs, and of what was achieved in relation to desired outcomes, and valid comparison with others is the information goal.

Until we can improve reported information on our performance, we must continue with an input focus

In analyzing the shortcomings in our performance information, we became acutely aware that the presentation invites micro-management from the outside because the presentation focus is on inputs, that is by object of expense such as salaries, accommodation and supplies. As much as we would prefer to focus on outputs, we have decided to continue to report expenses by object in the Office's statement of operations because the financial statements do not yet convey a level of performance information that would justify moving the object-based information to a secondary position.

We expect that funders will increasingly demand information on expectation and achievement

We expect that as users become more familiar with and learn to use output information in financial statements, they will demand that it become the primary information. There will be a wider appreciation that it is the "what" and "why" that should interest the funder; the "how" is management's prerogative. In other words, information on the cost of inputs and activities merely serves as a reality check for external users; information on expectation and achievement should be driving their contribution to decision making.

An external review of our audit practice confirmed that it meets generally accepted standards

In November 1995, the practice of the Office was reviewed by the Institute of Chartered Accountants of Alberta as part of the Institute's ongoing program of professional standards maintenance and quality assurance. The review consisted of a general review of quality control policies and procedures, and a review of selected audit engagements. Based on its work, the Institute reported that we were in compliance with all requirements, including generally accepted auditing standards.

The Deputy Auditor General was seconded to Alberta Treasury Branches

Early in 1996, the position of Deputy Auditor General was created and Andrew Wingate, CA, was appointed to the position. On April 1, 1996, Andrew was seconded to Alberta Treasury Branches as Chief Inspector during the period of transition to a board-governed organization.

General Comments on Operations

We are proud of our students and their successes

Our students continue to be successful in passing professional examinations. We are proud that in 1995-96 six of our students qualified as Chartered Accountants and two as Certified Management Accountants. All of these individuals obtained their training and completed their experience requirements with this Office. In order to continue to assist our candidates, we have formed a strategic alliance with a major private sector accounting firm which organizes volunteer peer support for their candidates through course materials and practice exams. This association will provide our students with the finest resources to prepare themselves for their professional examinations.

To ensure our staff are cost-effective, we search for the best audit tools

Our business is auditing and we continue to identify, evaluate and introduce audit methodology and tools that will take advantage of technology and methodology opportunities to improve the way we do audits. There is always scope for improving the audit process in ways that reinforce the fundamental principles.

Peter Valentine, FCA
Auditor General

Office of the Auditor General
1995-96 Audited Financial Statements
Management Discussion and Analysis

General:

Actual expenditure has decreased each year since 1992-93 as follows:

	<u>Actual</u>	<u>Decrease</u>	
	<u>Expenditure</u>	<u>Amount</u>	<u>Percentage</u>
1992-93	12,287,572		
1993-94	11,167,211	1,120,361	9.1%
1994-95	9,407,973	1,759,238	15.8%
1995-96	8,857,656	550,317	5.8%

As a consequence of these annual reductions, 1995-96 expenditure represents a reduction of 27.9% from 1992-93. Government guidelines call for a 15% reduction by 1995-96, and a 20% reduction by 1996-97. Our 27.9% actual reduction is nearly double the 15% guideline, and is substantially more than the 20% guideline to be achieved by 1996-97.

In dollar terms, our cumulative savings over the last three years total \$7,429,876, and exceed reduction guidelines by \$4,357,983.

Major changes in 1995-96:

Audit fees receivable on the balance sheet arise as a matter of timing and not as a reflection of new billing practices. We continue to charge audit fees to organizations which are funded other than by the General Revenue Fund.

The Office's share of unfunded pension liabilities decreased by \$373,375. In February 1995, a number of employees accepted contract offers and therefore no longer participated in the pension plan. This change reduced the Office's pensionable payroll, which in turn reduced the Office's share of unfunded pension liabilities at March 31, 1996.

Office accommodation expenses decreased by \$389,716 (63.6%) from the previous year due to a lease renewal that we negotiated in February 1995, and a 25% reduction in the space occupied by the Edmonton office.

Amortization of capital assets increased by \$80,858 (62.2%), as a result of the first full year's amortization of the redeveloped Audit Management System (AMS), and amortization on 40 notebook computers purchased in the year.

Travel expenses increased by \$41,385 (29.4%) largely due to new work with the regional health authorities.

Materials and supplies increased by \$122,514 (93.1%), mainly as a result of computer hardware and software purchases which do not recur annually. These purchases were made to install an office-wide network, and to upgrade desktop computers to operate on a Windows95 platform. In addition to the Windows95 software, we also upgraded our word processing, spreadsheet, e-mail and scheduling software to Windows95 versions.

Computer services expenses increased by \$76,304 (91.5%). This increase is attributable to contract programming costs to enhance the capabilities of the AMS, and to modify some reporting functions.

Salaries and Wages:

Note 8 shows that full-time equivalent positions decreased from 125.2 last year to 111.5 in 1995-96. However, as our staff complement is too low, efforts to recruit all the professional staff we need are ongoing. Total salaries and benefits shown in this note decreased by \$563,586, with the majority of the decrease due to the change in unfunded pension liabilities as described above. The current year's costs include \$80,000 paid to staff under the Productivity Plus Program which was instituted by the government in 1995-96. Office payments under this Program conformed to government guidelines. Eight Principals received an award which is why the average remuneration of all Principals increased by \$1,300.

Schedule 1 - Schedule of Output Costs by Ministry:

This schedule contains a new column entitled "Other Client Services." During 1995-96, costs totaling \$522,085 were incurred to provide various types of assistance to audit clients such as participation on task forces and other special projects that do not lead to audited financial statements or recommendations for the Annual Report. We believe that this assistance was of significant benefit to a number of clients.

Our recommendations are designed to improve the financial administration of the Province. The numbers of recommendations made each year will vary for reasons including the time required to develop and propose a solution, and available staff resources. We keep track of the recommendations made each year to indicate the focus of our work.

Schedule 2 - Schedule of Recommendation Work and Status of Recommendations:

The increase of five in the number of repeat recommendations in the 1994-95 Annual Report is indicative of a greater number of our recommendations requiring longer to implement rather than reluctance on the part of the government to implement them. This fact is borne out by the zero rejection rate. The government is accepting a larger number of our recommendations in principle, rather than outright, for the same reason—a greater percentage of the recommendations will take longer to implement. For example, longer implementation periods are necessary when new systems and procedures are needed to support performance measurement.

Schedule 3 - Schedule of Other Performance Information:

This schedule shows that the Office's average hourly costs are well below those paid to agents.

The average hourly amounts our agents charge us are significantly less than their normal charge out rates. Amounts to be paid to agents are agreed on during audit planning, and reflect the fact that the agents incur less risk than they do in most other audit engagements. In all audits involving agents, audited financial statements are signed by the Auditor General who retains the responsibility and risk associated with the audits. Senior Auditor General staff also approve the audit plans, review the audit files, and are present at all meetings with client management.

The average hourly costs for Auditor General staff increased by \$5.74 (9.6%) over the previous year. With the rapid reduction in full-time equivalent positions during the past few years, central services and administrative functions represent a greater proportion of the average hourly cost. However, since March 31, 1996, we have been able to improve support service efficiency and reduce costs. In effect, what had been a relatively fixed support service cost was being borne by a decreasing number of direct audit staff. In 1994-95 the increase in average hourly costs was cushioned by \$380,681 in manpower costs that were capitalized in connection with the redevelopment of AMS.

Schedule 3 demonstrates that timeliness has been maintained, and, in fact, sets the standard for the release of government consolidated financial statements in Canada.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Office of the Auditor General are the responsibility of management and have been approved by the Management Committee.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The Management Committee is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements.

The financial statements have been audited by Kingston Ross Pasnak, Chartered Accountants, on behalf of the members of the Legislative Assembly.

Peter Valentine, FCA
Auditor General
May 9, 1996

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

FINANCIAL STATEMENTS

MARCH 31, 1996

Auditor's Report

Balance Sheet

Statement of Operations

Statement of Changes in Financial Position

Notes to the Financial Statements

Schedule of Output Costs by Ministry

Schedule of Recommendation Work and Status of Recommendations

Schedule of Other Performance Information

AUDITORS' REPORT

To the Chairman, Select Standing Committee on Legislative Offices:

We have audited the balance sheet of the Office of the Auditor General as at March 31, 1996 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Kingston Ross Pasnak
Chartered Accountants

May 9, 1996
Edmonton, Alberta

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

BALANCE SHEET

AS AT MARCH 31, 1996

	<u>1996</u>	<u>1995</u>
<u>ASSETS</u>		
Audit fees receivable	\$ 30,808	\$ -
Accountable advances	4,194	9,978
Work in progress (Note 3)	1,036,211	1,139,133
Due from General Revenue Fund	1,514,232	1,789,653
Capital assets (Note 4)	<u>602,672</u>	<u>616,690</u>
	<u>\$ 3,188,117</u>	<u>\$ 3,555,454</u>

LIABILITIES AND DEFERRED CONTRIBUTIONS

Accounts payable	\$ 566,788	\$ 615,468
Accrued vacation pay	479,016	518,277
Pension liability (Note 5)	1,917,630	2,291,005
Deferred expended capital contributions	<u>224,683</u>	<u>130,704</u>
	<u>\$ 3,188,117</u>	<u>\$ 3,555,454</u>

The accompanying notes and schedules
are part of these financial statements.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1996

	1996		1995
	Budget	Actual	Actual
	(Note 6)		
Expenses:			
Manpower (Note 8):			
Salaries and wages	\$ 5,625,443	\$ 5,051,874	\$ 5,115,169
Employer contributions (Note 5)	938,660	768,409	867,351
Change in pension liability	-	(373,375)	27,686
Professional fees and development	113,080	97,000	97,288
	<u>6,677,183</u>	<u>5,543,908</u>	<u>6,107,494</u>
Supplies and services:			
Agent fees	1,778,750	1,642,003	1,612,144
Office accommodation	342,000	222,744	612,460
Professional services and fees (Note 9)	258,700	552,220	535,556
Amortization of capital assets	100,922	210,816	129,958
Travel	144,000	182,402	141,017
Materials and supplies	155,925	254,178	131,664
Computer services	250,794	159,653	83,349
Office equipment rental	31,000	33,063	30,865
Repairs and maintenance	19,000	27,445	13,198
Miscellaneous	16,500	29,224	10,268
	<u>3,097,591</u>	<u>3,313,748</u>	<u>3,300,479</u>
Expenses before work in progress adjustment	<u>\$ 9,774,774</u>	8,857,656	9,407,973
Change in Annual Report work in progress		<u>12,349</u>	<u>85,974</u>
Total expenses for the year		8,870,005	9,493,947
Less audit fee revenue		<u>(862,946)</u>	<u>(793,351)</u>
Net cost of operations for the year		<u>\$ 8,007,059</u>	<u>\$ 8,700,596</u>
Financed by:			
General Revenue Fund		\$ 7,904,240	\$ 8,624,637
Amortization of deferred expended capital contributions		<u>102,819</u>	<u>75,959</u>
		<u>\$ 8,007,059</u>	<u>\$ 8,700,596</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1996

	<u>1996</u>	<u>1995</u>
Operating activities:		
Net cost of operations for the year	\$ (8,007,059)	\$ (8,700,596)
Non-cash transactions:		
Amortization of capital assets	210,816	129,958
Change in pension liability	(373,375)	27,686
Changes in working capital balances	<u>(10,043)</u>	<u>96,978</u>
	<u>(8,179,661)</u>	<u>(8,445,974)</u>
Investing activities:		
Capital assets	<u>(196,798)</u>	<u>(569,548)</u>
Financing activities:		
As shown on the statement of operations	8,007,059	8,700,596
Non-cash transaction:		
Amortization of deferred expended capital contributions	(102,819)	(75,959)
General Revenue Fund capital contributions	<u>196,798</u>	<u>29,563</u>
	<u>8,101,038</u>	<u>8,654,200</u>
Net change in due from General Revenue Fund	(275,421)	(361,322)
Due from General Revenue Fund at beginning of year	<u>1,789,653</u>	<u>2,150,975</u>
Due from General Revenue Fund at end of year	<u><u>\$ 1,514,232</u></u>	<u><u>\$ 1,789,653</u></u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1996

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature who operates under the authority of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The net cost of operations of the Office of the Auditor General is borne by the General Revenue Fund of the Province of Alberta. Annual operating and capital budgets are approved by the Select Standing Committee on Legislative Offices.

The Auditor General provides opinions on accountability reports, and issues an Annual Report to the Legislative Assembly containing recommendations designed to improve the financial administration of the Province. The 1994-95 Annual Report of the Auditor General was released in the 1996 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is done. Audit fees are charged to organizations which are funded other than by the General Revenue Fund.

(b) Output costs

Schedule 1 reports costs for three types of output. Opinion Projects result in Auditor's Reports on financial statements. Recommendation Projects are undertaken to produce recommendations and observations for the Auditor General's Annual Report to the Legislative Assembly. Other Client Services represent various types of assistance provided to audit clients such as participation on task forces and other special projects that do not lead to audited financial statements or recommendations for the Annual Report.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(c) Work in progress

Work in progress includes the cost of billable opinion projects for which invoices have not been prepared at the fiscal year end, and the cost of work on recommendations for the ensuing Annual Report. The cost of recommendation work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

(d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware and software	20%
Office equipment	10%

(e) Deferred expended capital contributions

Expended contributions from the General Revenue Fund for the acquisition of capital assets are deferred and amortized as the capital assets are consumed.

(f) Pension expense and liability

The cost of pension obligations earned by employees during the year, and interest on the unfunded liability which the Office has agreed to fund, are recorded as operating expenses for the year. The portion of the unfunded pension liability which the Office has agreed to fund is recorded as a liability. Any change in the liability is recognized in the year by an adjustment to manpower expense.

(g) Supplementary performance information

These financial statements contain supplementary performance information designed to assist in evaluating the Office's performance. In management's opinion, this quantifiable information is relevant and reliable.

Note 3 Work in Progress

Work in progress consists of:

	<u>1996</u>	<u>1995</u>
Billable opinion work	\$ 428,447	\$ 519,020
Annual Report recommendation work	<u>607,764</u>	<u>620,113</u>
	<u>\$ 1,036,211</u>	<u>\$ 1,139,133</u>

Note 4 Capital Assets

	<u>1996</u>		<u>1995</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 959,802	\$ 757,471	\$ 202,331
Computer software	675,430	277,101	398,329
Office equipment	<u>15,971</u>	<u>13,959</u>	<u>2,012</u>
	<u>\$ 1,651,203</u>	<u>\$ 1,048,531</u>	<u>\$ 602,672</u>
			<u>\$ 616,690</u>

Note 5 Pension Liability

The Office of the Auditor General participates with other employers in the Public Service and Management Employees pension plans. These plans provide pensions for the Office's employees based on years of service and earnings.

The Office's unfunded pension liability for each plan as at March 31 was as follows:

	<u>1996</u>	<u>1995</u>
Public Service Pension Plan	\$ 151,125	\$ 183,335
Management Employees Pension Plan	<u>1,766,505</u>	<u>2,107,670</u>
	<u>\$ 1,917,630</u>	<u>\$ 2,291,005</u>

Note 5 Pension Liability (continued)

The total unfunded pension liability for each plan as at March 31, 1996 was determined by actuarial valuations as at December 31, 1993 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1996.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Office's portion of those employers' liabilities was based on the Office's percentage of the total pensionable payroll of all employers in each Plan.

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses approved by the Select Standing Committee on Legislative Offices on January 18, 1995.

Note 7 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

Fiscal	
1997	\$ 196,095
1998	\$ 181,479
1999	\$ 187,539
2000	\$ 193,781
2001	\$ 200,211

Note 8 Salaries and Benefits

Salaries and benefits are comprised of the following:

	1996				1995	
	Full-time Equivalents ⁽¹⁾	Salary ⁽²⁾	Benefits and Allowances ⁽³⁾	Total	Full-time Equivalents ⁽¹⁾	Total
Auditor General ⁽⁴⁾	1.0	\$ 110,100	\$ 16,031	\$ 126,131	0.1	\$ 10,919
Deputy Auditor General ⁽⁴⁾	1.0	87,993	18,717	106,710	1.0	132,478
Assistant Auditor General, Audit Support	1.0	85,569	17,375	102,944	1.0	104,866
Assistant Auditor General ⁽⁵⁾	1.0	85,569	14,965	100,534	1.0	105,511
Assistant Auditor General ⁽⁶⁾	1.0	81,284	20,063	101,347	1.0	97,555
Assistant Auditor General ⁽⁷⁾	1.0	80,760	16,683	97,443	1.0	90,411
Assistant Auditor General	-	-	-	-	0.4	54,435
Principals (average* 1996 \$79,119, 1995 \$77,819)	23.2	1,490,554	345,014	1,835,568	24.4	1,898,790
Professional audit staff (average* 1996 \$55,510, 1995 \$57,069)	25.5	1,189,484	226,026	1,415,510	32.5	1,854,732
Students and other audit staff (average* 1996 \$34,295, 1995 \$31,550)	42.0	1,239,732	200,677	1,440,409	47.9	1,511,260
Support staff (average* 1996 \$42,564, 1995 \$42,220)	14.8	528,764	101,184	629,948	14.9	629,078
	<u>111.5</u>	<u>\$ 4,979,809</u>	<u>\$ 976,735</u>	<u>5,956,544</u>	<u>125.2</u>	<u>6,490,035</u>
Less:						
Decrease in accrued vacation pay and unfunded pension liabilities				(412,636)		(1,860)
Capitalization of salaries and employer contributions related to development of computer software				<u>-</u>		<u>(380,681)</u>
				<u>\$ 5,543,908</u>		<u>\$ 6,107,494</u>

* Average based on total

Note 8 Salaries and Benefits (continued)

- (1) Presented on a weighted average basis.
- (2) Salary includes regular pay, overtime and Productivity Plus awards.
- (3) Benefits and allowances includes the Office's share of all employee benefits and contributions including health care, dental coverage, group life insurance, short and long-term disability plans, professional membership dues, and tuition.

Benefits and allowances also includes any payout of vacation entitlements. With respect to executives, the payouts were as follows:

	<u>1996</u>	<u>1995</u>
Deputy Auditor General	\$ 3,781	\$ 12,244
Assistant Auditor General, Audit Support	\$ 2,674	\$ 5,014
Assistant Auditor General ⁽⁵⁾	\$ -	\$ 5,014
Assistant Auditor General ⁽⁶⁾	\$ 6,036	\$ 6,036
Assistant Auditor General ⁽⁷⁾	\$ 3,018	\$ -

- (4) Auditor General position vacant April 1, 1994 to February 28, 1995, during which time the Deputy Auditor General assumed the duties of Acting Auditor General. For 1995-96, automobile provided to Auditor General; no amount included in benefits.
- (5) Responsible for Social Services, Agriculture, Education and universities.
- (6) Responsible for Health, Transportation, Municipal Affairs and colleges.
- (7) Responsible for Treasury and Energy.

Note 9 Severance Pay

Professional services and fees includes severance pay of \$358,565 (1994 \$338,283) determined in accordance with government guidelines.

Note 10 Comparative Figures

Certain 1995 comparative figures have been reclassified to conform to 1996 presentation.

Note 11 Approval of Financial Statements

These financial statements were approved by management.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF OUTPUT COSTS BY MINISTRY
FOR THE YEAR ENDED MARCH 31, 1996

	1996				1995		
	Opinion Projects	Recommendation Projects	Other Client Services	Total	Annual Report Recommendations	Total	Annual Report Recommendations
Work performed by Office							
staff:							
Treasury	\$ 1,457,147	\$ 179,151	\$ 267,441	\$ 1,903,739	12	\$ 2,254,700	16
Advanced Education and							
Career Development	1,024,691	287,749	13,680	1,326,120	9	1,459,433	5
Health	518,592	242,295	74,442	835,329	9	622,885	7
Executive Council	225,732	252,842	-	478,574	4	450,727	11
Environmental Protection	210,054	182,052	3,535	395,641	9	286,382	9
Family and Social Services	184,025	147,066	31,596	362,687	7	351,352	6
Municipal Affairs	308,565	12,496	33,256	354,317	2	544,137	4
Energy	249,152	58,920	20,064	328,136	3	317,011	3
Agriculture, Food and Rural							
Development	218,525	84,165	9,002	311,692	4	306,031	6
Transportation and Utilities	106,032	109,646	9,306	224,984	4	219,124	5
Economic Development and							
Tourism	129,135	31,002	19,108	179,245	2	219,902	2
Community Development	154,985	-	7,595	162,580	0	193,529	0
Education	121,435	21,273	15,232	157,940	4	212,281	4
Justice	6,956	71,471	3,995	82,422	2	68,469	2
Public Works, Supply and							
Services	7,377	53,343	11,124	71,844	2	130,207	5
Labour	20,253	10,728	2,709	33,690	0	217,622	1
Legislative Assembly	7,305	10,538	-	17,843	0	28,011	0
Federal and Intergovernmental							
Affairs	1,219	-	-	1,219	0	-	0
	4,951,180	1,754,737	522,085	7,228,002	73	7,881,803	86
Work performed by agents:							
Advanced Education and							
Career Development	506,082	3,800	-	509,882	1	521,445	2
Health	467,290	-	-	467,290	0	397,635	0
Economic Development and							
Tourism	180,266	-	-	180,266	0	121,521	0
Municipal Affairs	116,198	-	-	116,198	0	69,471	0
Labour	90,000	-	-	90,000	0	-	0
Education	75,119	-	-	75,119	0	81,225	1
Public Works, Supply and							
Services	53,316	-	-	53,316	0	51,433	0
Community Development	48,400	-	-	48,400	0	62,918	0
Treasury	47,150	-	-	47,150	0	70,928	0
Energy	23,941	-	-	23,941	0	-	0
Executive Council	19,941	-	-	19,941	0	-	0
Agriculture, Food and Rural							
Development	10,500	-	-	10,500	0	235,568	0
	1,638,203	3,800	-	1,642,003	1	1,612,144	3
	\$ 6,589,383	\$ 1,758,537	\$ 522,085	\$ 8,870,005	74	\$ 9,493,947	89

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF RECOMMENDATION WORK AND STATUS OF RECOMMENDATIONS
FOR THE YEAR ENDED MARCH 31, 1996

Focus of Work

	1994-95		1993-94	
	Recommendation		Recommendation	
	Primary	Secondary	Primary	Secondary
Accounting, management control and information systems and processes	18	21	13	32
Improved use of resources	7	6	7	10
Measuring and reporting the cost and effects of outputs	11	5	9	8
Compliance with authorities, and matters of probity	2	3	2	6
Other areas	-	1	1	1
	<u>38</u>	<u>36</u>	<u>32</u>	<u>57</u>

Recommendations Requiring a Formal Government Response

	1994-95		1993-94	
	Annual Report	%	Annual Report	%
New recommendations	28	74%	27	84%
Repeat recommendations	<u>10</u>	<u>26%</u>	<u>5</u>	<u>16%</u>
Total primary recommendations	<u>38</u>	<u>100%</u>	<u>32</u>	<u>100%</u>

Government Response to Recommendations

	February 7, 1996 (date of response)		December 21, 1994 (date of response)	
		%		%
Accepted	26	68%	27	84%
Accepted in principle	11	29%	4	13%
Under review	-	-	1	3%
No longer applicable	1	3%	-	-
Rejected	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>38</u>	<u>100%</u>	<u>32</u>	<u>100%</u>

Note: The response to a primary recommendation, and any remedial action taken, is reported in the subsequent Annual Report. When the Auditor General considers that insufficient progress has been made in implementing a recommendation, it will be repeated. Recommendations not repeated either have been, or are being, implemented satisfactorily. On occasion, a recommendation is neither implemented nor repeated due to changed circumstances.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

SCHEDULE OF OTHER PERFORMANCE INFORMATION

FOR THE YEAR ENDED MARCH 31, 1996

Average Hourly Costs

	<u>Auditor General</u>		<u>Agents*</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Overall average	\$ 65.38	\$ 59.64	\$ 76.58	\$ 77.35

* Average based on fees paid to agents.

Public Reporting

	<u>1994-95 Reports</u>	<u>1993-94 Reports</u>
Auditor General's Annual Report:		
Date of Report	October 16, 1995	October 14, 1994
Date released publicly	October 23, 1995	October 24, 1994
Consolidated financial statements:		
Date of Auditor's Report	June 16, 1995	June 15, 1994
Date released publicly	June 23, 1995	June 23, 1994

**Standing Committee on
Legislative Offices**

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on August 27, 1996, the day the Assembly last adjourned were:

Ron Hierath	Chairman
Roy Brassard	Deputy Chairman
Frank Bruseker	
Gary Dickson, QC	
Gary Friedel	
Yvonne Fritz	
Ken Kowalski	
Don Massey	
Gary Severtson	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Janice Rennie, CA	Chair
The Hon. Jim Dinning	
E. Susan Evans, QC	
John Halpin, FCA	
Brian McCook, CA	
Alastair Ross	
Fred Snell, CA	

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Muriel Abdurahman

Chair

David Coutts

Deputy Chair

Moe Amery

Jocelyn Burgener

Debby Carlson

Sine Chadi

Carol Haley

Jon Havelock, QC

Terry Kirkland

Richard Magnus

Lyle K. Oberg

Mike Percy

Hung Kim Pham

Rob Renner

Peter Sekulic

Lorne Taylor

Julius E. Yankowsky

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1996, were as follows:

Coopers & Lybrand
Craig Davies Collins
Deloitte & Touche
Doane Raymond
Ernst & Young
Hudson & Company
Johnston, Morrison, Hunter & Co.
KPMG Peat Marwick Thorne
Ladell Perry
Price Waterhouse
Roy, Solbak, Walsh & Co.
Young, Parkyn, McNab & Co.

Financial Terminology

1. Surplus, Deficit, Net Debt and Debt

In order to properly understand the Province's financial condition and results, it is necessary to understand the terminology used in the Public Accounts. For example, SURPLUS, DEFICIT, NET DEBT and DEBT are terms with particular meanings in the consolidated financial statements of the Province. Unfortunately, the terms are given different meanings by those not familiar with them.

The following table presents a summary of the Consolidated Statement of Operations for the fiscal year ended March 31, 1996, and the Consolidated Statement of Financial Position at March 31, 1996.

	In Millions	
	<u>1996</u>	<u>1995</u>
Revenue	\$ 15,572	\$ 16,068
Expense/expenditure (see following comments)	<u>(14,440)</u>	<u>(15,396)</u>
Surplus for the year	1,132	672
Net debt at beginning of year	<u>(12,707)</u>	<u>(13,379)</u>
Net debt at end of year	<u><u>\$ (11,575)</u></u>	<u><u>\$(12,707)</u></u>
Assets	\$ 20,542	\$ 18,845
Liabilities	<u>(32,117)</u>	<u>(31,552)</u>
Net Debt	<u><u>\$ (11,575)</u></u>	<u><u>\$(12,707)</u></u>

Surplus/Deficit

A surplus results when the Province's consolidated revenue exceeds expense for a fiscal year.

A deficit results when the Province's consolidated expense exceeds revenue for a fiscal year.

Explanation of Some Financial Terminology

Net Debt/Consolidated Net Debt

Annual deficits have exceeded annual surpluses in the past, so the net accumulated annual deficits are reported as consolidated net debt. The terms net debt and consolidated net debt are used interchangeably. Net debt represents the difference between the Province's assets and the liabilities (1996 \$11,575 million, 1995 \$12,707 million). The term "accumulated deficit" is sometimes used to describe the net accumulated annual deficits incurred over time, and is synonymous with "net debt."

The net debt arises from the consolidated financial position of about one hundred Provincial entities. These include the General Revenue Fund, revolving funds, the Alberta Heritage Savings Trust Fund and other regulated funds, Provincial agencies and Crown-controlled corporations, including those agencies and corporations designated as commercial enterprises. Provincial agencies such as universities, public colleges, technical institutes, school boards, and regional health authorities are not included.

The assets of the Province include cash and marketable securities, receivables, investments, equity in commercial enterprises, loans and advances, and inventories. Capital assets such as land, buildings and infrastructure are currently excluded.

The liabilities of the Province include accounts payable, unmatured debt, pension obligations and other accrued liabilities.

Debt

The word debt is used by commentators to describe the total liabilities of the Province (1996 \$32,117 million, 1995 \$31,552 million) without taking into account the fact that the Province has some financial assets available to offset against part of the total liabilities.

However, the word debt is also used to describe the unmatured debt (1996 \$22,133 million, 1995 \$21,577 million), which is a part of the Province's liabilities. It is therefore important to be alert to the context in which the word debt is being used.

But note that debt, however used, is significantly different from net debt (1996 \$11,575 million, 1995 \$12,707 million) determined by netting the assets and liabilities of the Province.

2. Expense and Expenditure

The most significant of the changes in the 1995-96 consolidated financial statements was reporting the expense instead of the expenditure of main functions, such as health, education, social services, etc. The EXPENSE method accounts for resources consumed in the accounting period, whereas the expenditure method accounts for resources acquired, whether consumed or not. For example, for capital assets, the expense method accounts for annual amortization of the capital cost of the asset over the years of expected life of the asset. On the other hand, using the EXPENDITURE method, the full cost of the asset is

reported as expenditure in the year of acquisition. In more simple terms, you buy a truck for \$20,000 at the beginning of the year and at the end of the year the truck is worth \$14,000. What is the cost of the truck's usage during the year? Under the expense method of accounting, your annual cost is the \$6,000 difference (called amortization) between your initial cost and the value at the end of the year. Under the expenditure method, your cost is \$20,000.

This change in 1995-96 mirrored the basis on which the Provincial Budget '95 was prepared.

It should be noted, however, that even though the functional reporting within the Province's Consolidated Statement of Operations was expense based, the annual surplus for 1995-96 was still effectively an expenditure-based result.

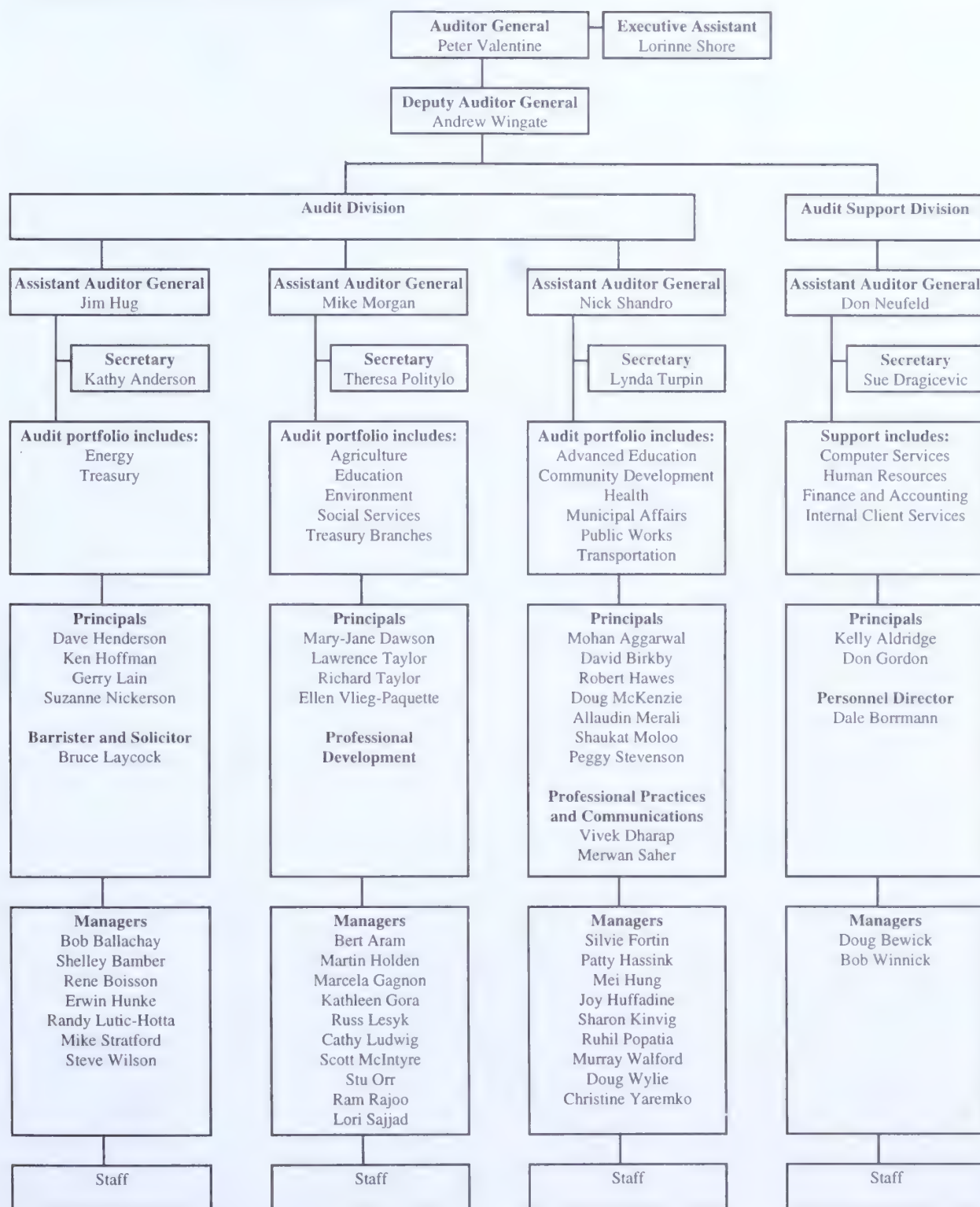
This expenditure-based result was achieved in the Statement of Operations as follows. Firstly, the amount of expense of each main function was disclosed (including the annual amortization of capital assets). Then, further down the Statement, a line item described as "net change in capital assets affecting operations" reversed out the annual amortization and substituted the cost of capital assets acquired during the year.

This practice is not as strange as it may seem at first. Since no national government accounting standard requires expense-based reporting, all governments in Canada report their results using the expenditure method. Expenditure-based reporting permits comparability across the nation. Also, credit rating agencies and existing and potential lenders are comfortable with that method.

It is very likely that a reader of the statements will find this practice quite difficult to understand. However, it is based on current thinking of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, and is viewed by me as a progressive step towards eventual expense accounting.

From a government's business management perspective, there is a current movement in Canada to realize the benefits of focusing on performance results using the expense method to provide better cost measurement of government outputs. As with many other government financial initiatives, Alberta is at the forefront of this initiative by implementing expense functional reporting for the Province's consolidated financial statements for 1995-96.

The organization of the Office of the Auditor General is as follows:



The Office of the Auditor General is administered by the Management Committee whose members are:

Peter Valentine, FCA
Andrew Wingate, CA

Jim Hug, CA
Mike Morgan, CA

Don Neufeld, CA
Nick Shandro, CA

Status Report on Recommendations

The summary which follows has been prepared to show the implementation status with respect to the Auditor General's 1994-95 numbered recommendations. The government formally responded to these recommendations in February 1996. Our follow-up of each of the recommendations is dealt with in section 2 of this annual report as referenced.

	1994-95 Recommendation	Government Response	Implementation Status
1	It is recommended that the effect on three-year business plans of significant changes to major programs or capital expenditures be quantified before the changes are implemented. Changes should be measured in terms of their effect on the originally planned outputs and costs.	The recommendation is accepted.	Satisfactory. See page 188.
2	It is recommended that when proposed major programs or capital expenditures are dependent on future events, the minister responsible disclose in the entity's three-year business plan an evaluation of the downside risk to the plans proposed.	The recommendation is accepted.	Progress unsatisfactory. See page 189.
3	It is recommended that the government review the form of the Estimates to assess whether information on the cost of outputs and performance targets should be included.	The recommendation is accepted. As we move to a fully consolidated budget for Budget '96, the first step will be to formally integrate business plans into the Legislative Assembly's review of the Estimates.	Satisfactory. See page 15.

1994-95 Recommendation	Government Response	Implementation Status
4 It is recommended that plans, annual reports and financial statements provide information on outputs.	The recommendation is accepted. Ministries continue to improve information provided about outputs.	Satisfactory. See page 15.
It is further recommended that plans and reports provided by organizations to their ministers identify the outputs to be produced and the expected full cost of the outputs. These plans should show the contribution the organization will make to ministry and government goals.	The recommendation is accepted in principle.	
5 It is recommended that the Province develop systems to allocate all costs that are material, including a cost of capital employed, to organizations responsible for delivering outputs.	The recommendation is accepted.	Satisfactory. See page 15.
6 It is recommended that financial reports include supplementary performance information.	The recommendation is accepted. Ministries continue to improve information about supplementary performance information.	Satisfactory. See page 15.

Status Report on Recommendations

	1994-95 Recommendation	Government Response	Implementation Status
7	It is recommended that the Department of Advanced Education and Career Development continue to work with post-secondary educational institutions to develop a system which links educational outputs and costs to expected effects.	The recommendation is accepted in principle. Institutions have agreed to a core set of performance indicators, relating to outcomes, outputs and costs. These indicators will be publicly reported by all institutions. As well, a performance-based funding mechanism is being developed. The performance of institutions will be measured against benchmarks which have yet to be established.	Satisfactory. See page 39.
8	It is recommended that the Governing Council review Athabasca University's management structure and reporting processes, and consider the information necessary to ensure that collectively they are consistent with effective governance.	The Governing Council of Athabasca University accepts the recommendation and has implemented it.	Resolved. See page 47.
9	It is recommended that the University of Alberta improve its measuring and reporting of sponsored research activities.	The recommendation is accepted by the University of Alberta. Steps will be taken to improve the measuring and reporting process. The planned financial information system will facilitate full costing.	Satisfactory. See page 48.

1994-95 Recommendation	Government Response	Implementation Status
10 It is recommended that Telecommunications Research Laboratories disclose in its annual financial statements the salary and benefits information required by the Treasury Board and the comparative budget information prescribed by the Provincial Treasurer.	As a result of recent organizational changes, Telecommunications Research Laboratories is no longer controlled by the University of Alberta according to legal advice. Therefore, the recommendation is no longer applicable.	The recommendation is no longer applicable. See page 49.
11 It is recommended that the Department of Agriculture, Food and Rural Development use the criteria developed for the whole farm safety net program to assess the appropriateness and effects of other farm income support programs.	The recommendation is accepted. Criteria developed for the whole farm safety net program will be used to evaluate the Farm Income Stability Program. Where appropriate, these criteria and criteria developed by the Canadian Comprehensive Auditing Foundation will be incorporated into the national evaluation of crop insurance. The criteria will be refined to ensure they relate to Ministry goals.	Satisfactory. See page 60.
12 It is recommended that the Agriculture Financial Services Corporation use risk-based techniques to identify which information obtained to determine insurance coverage, premiums and claims needs to be verified.	The recommendation is accepted. Statistical analysis provided by external consultants has been used in setting the minimum limits for verifying information to determine coverage. Further risk-based techniques can be developed in conjunction with actuaries and the Auditor General's Office.	Satisfactory. See page 63.

Status Report on Recommendations

	1994-95 Recommendation	Government Response	Implementation Status
13	It is recommended that the Alberta Research Council develop a system that assists the timely collection of royalties and license fees.	The recommendation is accepted. A royalty collection system is under development that will ensure the timely collection of royalties and license fees in accordance with contractual rights.	Satisfactory. See page 72.
14	It is recommended that the Department of Education require that financial statements for each school board be prepared in accordance with generally accepted accounting principles.	The recommendation is accepted and is being implemented.	Resolved. See page 79.
15	It is recommended that the Department of Education require school boards to include in their financial statements information that links costs with results.	The recommendation is accepted in principle. School boards are now required to report student achievement on provincial achievement tests and diploma examinations, programs offered and spending per student. Further analytical work is needed to develop a better understanding of the link between costs and results.	Satisfactory. See page 79.
16	It is recommended that the Department of Education require school boards to provide information which relates special needs program expenditures to services delivered and the number of students served.	The recommendation is accepted. School boards are now reporting on special education programs, spending and number of students who are classified as severely disabled. School board planning and reporting requirements for 1996-97 are being developed to more fully address this recommendation. Special needs student performance standards continue to be studied.	Satisfactory. See page 79.

1994-95 Recommendation	Government Response	Implementation Status
<p>17 To prevent misunderstanding, it is recommended that the Minister of Education (responsible for the School Act) and the Provincial Treasurer (responsible for the Financial Administration Act) clarify the role and responsibilities of the Alberta School Foundation Fund Audit Board, so as to avoid duplicating the expenditure safeguards of the Financial Administration Act and the functions of the Auditor General.</p>	<p>The recommendation is accepted in principle. Discussions are underway and, if needed, changes to the legislation will be considered.</p>	<p>Satisfactory. See page 81.</p>
<p>18 It is recommended that the Department of Energy periodically reassess the risks associated with continuing the development and implementation of the Mineral Revenues Information System.</p>	<p>The recommendation is accepted. In consultation with industry representatives, the Mineral Revenues Information System (MRIS) has been determined to be the best alternative for gas royalty processes. A risk assessment of the project was also conducted by a private sector consultant. The resulting recommendations are now being addressed. Continuing review of the project is planned.</p>	<p>Satisfactory. See page 85.</p>

Status Report on Recommendations

	1994-95 Recommendation	Government Response	Implementation Status
19	It is recommended that the Department of Energy determine the extent to which it has achieved the intended royalty simplification initiatives, and complete its planning for further royalty simplification efforts.	<p>The recommendation is accepted. Achievement of the intended royalty simplification initiatives is tied to the issuance of the first production invoice under MRIS. The benefits to industry and government will be more fully measurable upon completion of the first full production year under the new system.</p> <p>The simplification efforts also include a detailed examination of oil royalty and mineral tax processes. No further changes are planned in the near future for calculation and collection of oil royalty. However, process improvements may be made to achieve operating cost reductions. When MRIS is functioning, the processes for determining and collecting mineral taxes will also be examined.</p>	Satisfactory. See page 85.
20	It is recommended that the Tire Recycling Management Board establish a reliable methodology for measuring the stockpile of used tires in Alberta to determine whether the objective of reducing the stockpile is being achieved. The Board should also revise its strategy for reducing stockpiled tires by taking into account environmental risk factors such as potential fire hazards.	The recommendation is accepted. A survey to measure the size and condition of significant stockpiles is being completed as part of the Scrap Tire Management Strategy. The landfill registration process compiles information on stockpile characteristics, tire conditions and removal urgency so that the Board can work with processors to respond to these situations.	Satisfactory. See page 100.

1994-95 Recommendation	Government Response	Implementation Status
21 It is recommended that the Department of Family and Social Services determine the impact and cost of the various initiatives it has implemented to reduce the Supports for Independence caseload.	The recommendation is accepted. A process to further determine and report both the qualitative and quantitative effects of various initiatives is under examination	Satisfactory. See page 106.
22 It is recommended that the Department of Family and Social Services extend the present testing of client files that contain irregularities, to determine the monetary impact of the deficiencies found.	The recommendation is accepted. A process to identify and correct administrative errors in clients' files has been implemented. In addition, the process will be used to determine the monetary impact of the detected errors.	Satisfactory. See page 107.
23 It is recommended that the Department of Health foster funding systems that focus on enhancing the health of the population.	The recommendation is accepted. A new payment structure which will align the delivery of medical services with health goals is currently being negotiated with physicians. In addition, a new funding methodology is under development.	Progress Unsatisfactory. See page 128.
24 It is recommended that the Department of Health, with the participation of the regional health authorities, review the progress made by the authorities in establishing effective governance with a view to promoting best practice.	The recommendation is accepted. A self-evaluation tool for use by the regional health authorities is under joint development.	Progress Unsatisfactory. See page 118.

Status Report on Recommendations

	1994-95 Recommendation	Government Response	Implementation Status
25	It is recommended that the Department of Health and the regional health authorities establish a system to optimize the use of significant public funds by community, voluntary and private organizations in delivering regional health services.	The recommendation is accepted in principle. Regional health authorities are responsible for the provision of services in their area. They are working with the non-merged sector to establish service agreements. The Department will facilitate the process, monitor progress and review service agreements.	Progress Unsatisfactory. See page 133.
26	It is recommended that the Department of Health advocate those accounting policies which best support performance measurement and reporting by regional health authorities and Provincial health boards.	The recommendation is accepted. Agreement of the regional health authorities and provincial health boards is being sought on the method of accounting to be used.	Progress Unsatisfactory. See page 127.
27	It is recommended that the Department of Health examine its guidance to regional health authorities to test whether it is helping them to meet the standards of reporting expected of those using public money. In particular, the Department should consider guidance on budget information and expense groupings.	The recommendation is accepted. Directions indicating the form of financial statements required for inclusion in the annual report will be issued when the stakeholder consultation process is complete. Budget information will be required in the 1996-97 financial statements.	Progress Unsatisfactory. See page 125.

1994-95 Recommendation	Government Response	Implementation Status
28 It is recommended that the Department of Justice determine the costs and results of its fines collection activities to provide this information to the Legislative Assembly, the Provincial Court of Alberta, and municipalities.	The recommendation is accepted. A task group has been formed to review the present system and make recommendations about reporting the costs and results of fine collections. The task group's recommendations, along with the results of a strategic planning study, will be taken into account when formulating future business plans.	Satisfactory. See page 141.
29 It is recommended that the Alberta Social Housing Corporation procure rental accommodation for its Rent Supplement program at rates that do not significantly exceed average market rental rates.	The recommendation is accepted. Market rental rates for units provided in Edmonton and Calgary under this program have been under review. Where the rates are higher than market values, lower rates are being negotiated with the landlords. In some instances, when this approach is not successful, clients are being relocated.	Satisfactory. See page 157.
30 It is recommended that the Department of Public Works, Supply and Services continue to reduce the cost of holding surplus space.	The recommendation is accepted. Attempts are underway to sublease or sell as much surplus space as feasible.	Satisfactory. See page 160.

Status Report on Recommendations

	1994-95 Recommendation	Government Response	Implementation Status
31	It is recommended that the Department of Transportation and Utilities require municipalities that receive grant payments for construction and maintenance of roads to demonstrate the effectiveness of use of public funds.	The recommendation is accepted. The feasibility of developing a performance measurement framework useful to the province and the municipalities is being considered. Measures of effectiveness for grant programs must recognize that the grants are used on roads under municipal jurisdiction. Municipalities have the authority to prioritize local requirements and decide how best to apply grant and local funding to meet these requirements.	Satisfactory. See page 165.
32	It is recommended that the Treasury Department record all revenue in the consolidated and General Revenue Fund financial statements on the accrual basis.	The recommendation is accepted in principle.	Progress unsatisfactory. See page 174.

1994-95 Recommendation	Government Response	Implementation Status
33 It is recommended that valuation adjustments be allocated to program costs in the consolidated and General Revenue Fund financial statements.	The recommendation is accepted in principle. Both the consolidated budget and financial statements will now reflect valuation adjustments related to student loans, Alberta Social Housing Corporation, Alberta Opportunity Company and Agriculture Financial Services Corporation as part of program costs. Further allocations of valuation adjustments will be reviewed in conjunction with the development of ministry and departmental financial statements.	Progress unsatisfactory. See page 176.
34 It is recommended that the Treasury Department reassess the need for revolving funds in order to reduce costs and simplify administration.	The recommendation is accepted.	Progress unsatisfactory. See page 181.
In the event that revolving funds continue, it is recommended that their financial statements include all material costs of operations.	The recommendation is accepted in principle.	Progress unsatisfactory. See page 181.
35 It is recommended that the Treasury Department closely monitor the strategy, progress and implementation of the government's proposed new accounting system.	The recommendation is accepted.	Satisfactory. See page 32.

Status Report on Recommendations

	1994-95 Recommendation	Government Response	Implementation Status
36	It is recommended that Alberta Pensions Administration assist the Public Sector Pension boards to improve the information communicated to employers.	The recommendation is accepted.	Progress unsatisfactory. See page 184.
	It is also recommended that the Treasury Department review the manner in which the pension liability is reallocated to employers within the Public Sector Pension Plans.	The recommendation is accepted in principle. The allocation approach will be reviewed.	Satisfactory. See page 185.
37	It is recommended that the level of acceptable investment risk be established for the Alberta Heritage Savings Trust Fund.	The recommendation is accepted in principle.	Satisfactory. See page 189.
38	It is recommended that the Treasury Department include additional performance measurement criteria in its investment objectives and provide additional performance information on the investments that it manages.	The recommendation is accepted in principle.	Satisfactory. See page 189.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows

Definitions

1 In this Act,

- (a) “Auditor General” means the Auditor General of Alberta;
- (b) repealed 1993 c19 s17;
- (c) “department” means a department as defined in section 1 of the *Financial Administration Act* and includes
 - (i) the Legislative Assembly Office,
 - (ii) the Ombudsman and the staff of the Office of the Ombudsman,

- (iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer,
- (iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner, and
- (v) the Information and Privacy Commissioner and the staff of the Office of the Information and Privacy Commissioner;
- (d) “employee of the Office of the Auditor General” includes a person engaged on a fee basis by the Auditor General;
- (e) “public money” means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;
- (f) “regulated fund” means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;
- (g) “Select Standing Committee” means the Select Standing Committee on Legislative Offices;
- (h) “voting share” means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s49;
1993 c19 s17;1994 cF-18.5 s93

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office	<p>5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.</p> <p style="text-align: right;">RSA 1980 cA-49 s5</p>
Vacancy in office	<p>6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.</p> <p>(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.</p> <p style="text-align: right;">RSA 1980 cA-49 s6</p>
Salary and benefits	<p>7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.</p> <p>(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.</p> <p style="text-align: right;">RSA 1980 cA-49 s7</p>
Acting Auditor General	<p>8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.</p> <p>(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).</p> <p>(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.</p> <p style="text-align: right;">RSA 1980 cA-49 s8</p>
Office of the Auditor General	<p>9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the <i>Public Service Act</i> as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.</p> <p>(2) On the recommendations of the Auditor General, the Select Standing Committee may order that</p> <p style="padding-left: 40px;">(a) any regulation, order or directive made under <i>the Financial Administration Act</i>, or</p>

- (b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) *The Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

- (a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or
- (b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

- (a) is the auditor of every ministry, department, regulated fund, revolving fund and Provincial agency, and
- (b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12; 1995 cG-5.5 s17

Financing of
operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

- (a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and
- (b) reports that either
 - (i) there is no supply vote under which an expenditure with respect to that matter may be made, or
 - (ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees	<p>14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.</p> <p style="text-align: right;">RSA 1980 cA-49 s14</p>
Access to information	<p>15(1) The Auditor General is entitled to access at all reasonable times to</p> <ul style="list-style-type: none"> (a) the records of a department, fund administrator or Provincial agency, and (b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency, <p>for any purpose related to the exercise or performance of his powers and duties under this or any other Act.</p> <p>(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.</p> <p>(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.</p> <p>(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.</p> <p style="text-align: right;">RSA 1980 cA-49 s15</p>
Right to information	<p>16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall</p> <ul style="list-style-type: none"> (a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization, (b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

- (c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Reliance on auditor

16.1(1) In this section, “regional authority” means a board under the School Act or a regional health authority, subsidiary health corporation, community health council or provincial health board under the Regional Health Authorities Act.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

- (a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person’s findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,
- (b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and
- (c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report
on financial
statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

- (a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,
- (b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and
- (c) include any other comments related to his audit of the financial statements that he considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of
Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

- (a) on the work of his office, and
- (b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

- (a) collections of public money
 - (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,
 - (ii) have not been fully accounted for, or
 - (iii) have not been properly reflected in the accounts,
- (b) disbursements of public money
 - (i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,
 - (ii) have not complied with regulations, directives or orders applicable to those disbursements, or

- (iii) have not been properly reflected in the accounts,
- (c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,
- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or
- (e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

- (a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on
 - (i) the accounting policies employed, and
 - (ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,
- (b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and
- (c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(3.1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.1.

(4) A report under this section shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

RSA 1980 cA-49 s19; 1995 cG5.5 s17

Special reports	<p>20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.</p> <p>(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.</p> <p>1977 c56 s20</p>
Establishment of Audit Committee	<p>21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.</p> <p>(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.</p> <p>(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.</p> <p>1977 c56 s21</p>
Meetings of Audit Committee	<p>22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.</p> <p>(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.</p> <p>1977 c56 s22</p>
Information re scope and results of audit	<p>23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.</p> <p>1977 c56 s23</p>
Availability of reports	<p>24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.</p> <p>1977 c56 s24</p>
When report not required	<p>25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.</p> <p>1977 c56 s25</p>
Supplementary information	<p>26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.</p> <p>1977 c56 s26</p>

Audit working papers	<p>27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.</p> <p>1977 c56 s27</p>
Report after examination	<p>28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.</p> <p>1977 c56 s28</p>
Advice on organization, systems, etc.	<p>29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.</p> <p>1977 c56 s29</p>
Annual audit	<p>30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.</p> <p>(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.</p> <p>(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.</p> <p>(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.</p> <p>1977 c56 s30</p>
Records Management	<p>31 On the recommendation of the Auditor General, the Select Standing Committee may make an order</p> <ul style="list-style-type: none"> (a) respecting the management of records in the custody or under the control of the Office of the Auditor General, including their creation, handling, control, organization, retention, maintenance, security, preservation, disposition, alienation and destruction and their transfer to the Provincial Archives of Alberta; (b) establishing or governing the establishment of programs for any matter referred to in clause (a); (c) defining and classifying records; (d) respecting the records or classes of records to which the order or any provision of it applies. <p>SA 1995 c34 s1</p>

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